Sberbank of Russia

Consolidated Financial Statements and
Independent Auditor's Report

31 December 2010

Consolidated Financial Statements and Independent Auditor's Report

CONTENTS

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Independent auditors' report

To the Shareholders and Supervisory Board of Sberbank -

We have audited the accompanying consolidated financial statements of Sberbank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC Ernst & Young Vneshaudit

21 March 2011

SBERBANK

Consolidated Statement of Financial Position

In millions of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	719 601	725 521
Mandatory cash balances with the Bank of Russia		50 532	40 572
Trading securities	8	66 168	91 022
Securities designated at fair value through profit or loss	9	106 875	124 439
Due from other banks		13 035	10 219
Loans and advances to customers	10	5 489 387	4 864 031
Securities pledged under repurchase agreements	11	81 493	2 699
Investment securities available for sale	12	1 210 921	845 975
Investment securities held to maturity	13	358 191	-
Deferred income tax asset	27	7 518	-
Premises and equipment	14	283 756	249 881
Other assets	15	241 050	150 707
TOTAL ASSETS		**8 628 527**	**7 105 066**
LIABILITIES			
Due to other banks	16	188 431	53 947
Due to individuals	17	4 834 459	3 787 312
Due to corporate customers	17	1 816 672	1 651 559
Debt securities in issue	18	119 426	124 599
Other borrowed funds	19	270 765	115 213
Deferred income tax liability	27	15 921	4 598
Other liabilities	20	92 173	69 841
Subordinated debt	21	303 513	519 061
TOTAL LIABILITIES		**7 641 360**	**6 326 130**
EQUITY			
Share capital	22	87 742	87 742
Share premium		232 553	232 553
Revaluation reserve for office premises		53 648	55 540
Fair value reserve for investment securities available for sale		24 431	(598)
Foreign currency translation reserve		(1 136)	(1 009)
Retained earnings		585 819	403 934
Total equity attributable to shareholders of the Bank		**983 057**	**778 162**
Non-controlling interest		4 110	774
TOTAL EQUITY		**987 167**	**778 936**
TOTAL LIABILITIES AND EQUITY		**8 628 527**	**7 105 066**

Approved for issue and signed on behalf of the Management Board on 21 March 2011.

Herman Gref
Chairman of the Management Board and CEO

Andrey Kruzhalov
Chief Accountant

SBERBANK

Consolidated Income Statement

In millions of Russian Roubles	Note	2010	2009
Interest income	23	795 646	814 962
Interest expense	23	(299 825)	(312 245)
Net interest income		**495 821**	**502 717**
Net provision charge for loan impairment	10	(153 809)	(388 932)
Net interest income after provision charge for loan impairment		**342 012**	**113 785**
Fee and commission income	24	130 949	105 723
Fee and commission expense	24	(7 375)	(4 634)
Net gains arising from trading securities		4 770	13 310
Net gains arising from securities designated at fair value through profit or loss		9 642	7 557
Net gains arising from investment securities available for sale		9 597	17 102
Impairment of investment securities available for sale	12	(39)	(2 274)
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	25	14 072	16 228
Net gains arising from operations with precious metals and precious metals derivatives		570	1 657
Net gains arising from operations with other derivatives		1 793	768
Negative revaluation of office premises	14	-	(14 996)
Goodwill impairment	15	(917)	-
Impairment of non-current assets held for sale		-	(2 967)
Provision charge for impairment of other assets	15	(6 437)	(2 373)
Other operating income		14 117	10 255
Operating income		**512 754**	**259 141**
Operating expenses	26	(282 619)	(229 277)
Profit before tax		**230 135**	**29 864**
Income tax expense	27	(48 487)	(5 468)
Profit for the year		**181 648**	**24 396**
Attributable to:			
- shareholders of the Bank		182 131	24 396
- non-controlling interest		(483)	-
Earnings per ordinary share for profit attributable to the shareholders of the Bank, basic and diluted (expressed in RR per share)	**28**	**8.42**	**1.10**

Approved for issue and signed on behalf of the Management Board on 21 March 2011.

Herman Gref
Chairman of the Management Board and CEO

Andrey Kruzhalov
Chief Accountant

SBERBANK

Consolidated Statement of Comprehensive Income

In millions of Russian Roubles	Note	2010	2009
Profit for the year recognised in the income statement		**181 648**	**24 396**
Components of other comprehensive income:			
Office premises remeasurement:			
- Negative revaluation of office premises	14	-	(21 198)
Investment securities available for sale:			
- Net gains on revaluation of investment securities available for sale		40 823	55 556
- Impairment of investment securities available for sale transferred to Income statement	12	39	2 274
- Accumulated gains transferred to Income statement upon disposal of securities		(9 597)	(17 102)
Net foreign currency translation losses		(152)	(1 110)
Deferred income tax relating to components of other comprehensive income:			
- Office premises remeasurement	27	39	4 257
- Investment securities available for sale	27	(6 236)	(8 141)
Total components of other comprehensive income for the year, net of tax		**24 916**	**14 536**
Total comprehensive income for the year		**206 564**	**38 932**
Attributable to:			
- shareholders of the Bank		207 072	38 932
- non-controlling interest		(508)	-

Consolidated Statement of Changes in Equity

In millions of Russian Roubles	Note	Attributable to shareholders of the Bank								
		Share capital	Share premium	Revaluation reserve for office premises	Fair value reserve for investment securities available for sale	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2009		**87 742**	**232 493**	**74 981**	**(33 185)**	**101**	**388 030**	**750 162**	**-**	**750 162**
Changes in equity for the year ended 31 December 2009										
Disposal of treasury shares		-	60	-	-	-	-	60	-	60
Dividends declared	29	-	-	-	-	-	(10 992)	(10 992)	-	(10 992)
Amortisation of revaluation reserve for office premises, net of tax		-	-	(2 500)	-	-	2 500	-	-	-
Business combinations		-	-	-	-	-	-	-	774	774
Total comprehensive income recognised for the year ended 31 December 2009		-	-	(16 941)	32 587	(1 110)	24 396	38 932	-	38 932
Balance as at 31 December 2009		**87 742**	**232 553**	**55 540**	**(598)**	**(1 009)**	**403 934**	**778 162**	**774**	**778 936**
Changes in equity for the year ended 31 December 2010										
Dividends declared	29	-	-	-	-	-	(2 177)	(2 177)	-	(2 177)
Amortisation of revaluation reserve for office premises, net of tax		-	-	(1 931)	-	-	1 931	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	4 211	4 211
Acquisition of non-controlling interests in subsidiaries	37	-	-	-	-	-	-	-	(367)	(367)
Total comprehensive income recognised for the year ended 31 December 2010		-	-	39	25 029	(127)	182 131	207 072	(508)	206 564
Balance as at 31 December 2010		**87 742**	**232 553**	**53 648**	**24 431**	**(1 136)**	**585 819**	**983 057**	**4 110**	**987 167**

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Consolidated Statement of Cash Flows

In millions of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		809 556	823 100
Interest paid		(250 681)	(266 462)
Fees and commissions received		130 669	105 198
Fees and commissions paid		(7 140)	(4 634)
Net gains received from trading securities		1 040	2 404
Net gains received / (losses incurred) from securities designated at fair value through profit or loss		4 505	(171)
Net (losses incurred) / gains received from trading in foreign currencies and from operations with foreign currency derivatives		(14 516)	7 272
Net gains received from operations with other derivatives		2 944	-
Net gains received from operations with precious metals and precious metals derivatives		928	2 210
Other operating income received		12 267	7 781
Operating expenses paid		(240 549)	(194 165)
Income tax paid		(48 249)	(5 723)
Cash flows from operating activities before changes in operating assets and liabilities		**400 774**	**476 810**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Bank of Russia		(9 960)	(32 929)
Net decrease / (increase) in trading securities		28 436	(352)
Net decrease in securities designated at fair value through profit or loss		24 532	15 527
Net increase in due from other banks		(2 948)	(2 640)
Net increase in loans and advances to customers		(807 732)	(131 215)
Net increase in other assets		(76 191)	(52 752)
Net increase / (decrease) in due to other banks		130 062	(252 700)
Net increase in due to individuals		1 044 458	638 290
Net increase / (decrease) in due to corporate customers		155 431	(76 554)
Net decrease in debt securities in issue		(4 672)	(16 384)
Net increase / (decrease) in other liabilities		29 597	(138)
Net cash from operating activities		**911 787**	**564 963**
Cash flows from investing activities			
Purchase of investment securities available for sale		(1 835 415)	(674 269)
Proceeds from disposal and redemption of investment securities available for sale		1 178 645	168 711
Purchase of investment securities held to maturity		(94 636)	-
Acquisition of premises and equipment	14	(63 082)	(52 498)
Proceeds from disposal of premises and equipment including insurance payments		410	1 357
Acquisition of associates		(2 211)	-
Acquisition of subsidiaries		(994)	(1 467)
Dividends received		1 414	188
Net cash used in investing activities		**(815 869)**	**(557 978)**
Cash flows from financing activities			
Other borrowed funds received		178 190	832
Redemption of other borrowed funds		(27 799)	(53 090)
Repayment of interest on other borrowed funds		(3 918)	(5 258)
Redemption of subordinated debt		(214 912)	(15 897)
Repayment of interest on subordinated debt		(28 992)	(41 269)
Acquisition of non-controlling interest	37	(367)	-
Disposal of treasury shares		-	60
Dividends paid	29	(2 205)	(11 012)
Net cash used in financing activities		**(100 003)**	**(125 634)**
Effect of exchange rate changes on cash and cash equivalents		**(1 835)**	**40 421**
Net decrease in cash and cash equivalents		**(5 920)**	**(78 228)**
Cash and cash equivalents at the beginning of the year		725 521	803 749
Cash and cash equivalents as at the end of the year	**7**	**719 601**	**725 521**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Sberbank of Russia (Sberbank, “the Bank”) and its subsidiaries (together referred to as “the Group” or “Sberbank Group”). Principal subsidiaries include foreign commercial banks and other Russian and foreign companies controlled by the Group. A list of principal subsidiaries included in these consolidated financial statements is disclosed in Note 37.

The Bank is an open joint stock commercial bank which was established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank’s principal shareholder, the Central Bank of the Russian Federation (“Bank of Russia”), owns 60.3% of ordinary shares or 57.6% of the issued and outstanding shares as at 31 December 2010 (31 December 2009: 60.3% of ordinary shares or 57.6% of the issued and outstanding shares).

As at 31 December 2010 the Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also includes representatives from the Bank’s other shareholders and independent directors. Two Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

The Bank has operated under a full banking license issued by the Bank of Russia since 1991. In addition, the Bank holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer, a custodian, and providing asset management services. The Bank is regulated and supervised by the Bank of Russia and the Federal Service for Financial Markets. The Group’s foreign banks operate under the bank regulatory regimes of their respective countries.

The Group’s principal business activity is corporate and retail banking operations. This includes deposit taking and lending to corporate clients, small businesses and individuals in freely convertible currencies, local currencies of countries where the subsidiary banks operate and in Russian Roubles, support of clients’ export / import transactions, foreign exchange, settlements, cash collection, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. As at 31 December 2010 the Group conducts its business in Russia through Sberbank with its network of 17 (31 December 2009: 18) regional head offices, 522 (31 December 2009: 602) branches and 18 883 (31 December 2009: 19 103) sub-branches, and through principal subsidiaries – CJSC Sberbank Leasing and LLC Sberbank Capital. In the fourth quarter 2010 the Bank changed its organisational structure and its Altaisky regional head office was reorganized into a branch and resubordinated to Sibirsky regional head office. The Group operates outside Russia through 3 bank subsidiaries, located in the Ukraine, Belarus and Kazakhstan, a branch office in India and a representative office in Germany.

The Bank participates in the State Deposit Insurance System, which was introduced by the Federal Law №177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The System guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or the Bank of Russia imposed moratorium on payments.

The average number of the Group’s employees during the year ended 31 December 2010 was 257 046 (during the year ended 31 December 2009: 260 805).

Registered address and place of business. The Bank’s registered address is: Vavilova str., 19, Moscow, Russian Federation.

Presentation currency. These consolidated financial statements are presented in millions of Russian Roubles ("RR millions") unless otherwise stated.

2 Operating Environment of the Group

The Russian Federation continues economic reforms and development of its legal, tax and regulatory frameworks. The recent developments of the Russian government are focused on modernization of the Russian economy in order to improve its productivity and quality, increase the proportion of industries producing knowledge based high-value-added products and services. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2010, the Russian Government continued to take measures to support the Russian economy in order to overcome the consequences of the global financial crisis commenced in 2008. Gradual economic recovery was accompanied by financial stabilization and declining unemployment. Starting from the second quarter of 2010 corporate clients began to show higher demand for loans. A gradual increase of household income in 2010 also gave rise to stronger demand for credits from individuals.

Liquidity of the Russian financial sector returned to the pre-crisis level which broght strong competition for quality borrowers among financial institutions and declining interest rates on loans as a result. Despite the economic recovery there continues to be uncertainty regarding further economic growth in Russia, access to capital markets and cost of capital, which could negatively affect the Group's future financial position, results of its operations and its business prospects. As the Russian economy is vulnerable to global economic slowdowns, there still remain the risks of fluctuations on the Russian financial markets.

While the management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of office premises, investment property, available for sale financial assets and financial instruments at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are readily exercisable and convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date when control ceases.

Business combinations are accounted for using the acquisition method. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Non-controlling interest is the interest in subsidiaries not held by the Group. Acquisition costs incurred are expensed. Non-controlling interest is presented within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference ("gain from bargain purchase") is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, derivatives that are linked to and must be settled by delivery of such unquoted equity instruments and fixed assets except for office premises.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount and premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related statement of financial position items.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. Premiums and discounts on variable interest instruments are amortised to the next interest repricing date except for premiums and discounts which reflect the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, other securities at fair value through profit or loss and derivatives are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank deposits and reverse sale and repurchase agreements with original maturity up to 30 days. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Precious metals. Physical precious metals and deposits in precious metals are recorded at the lower of cost and net realizable value on the reporting date.

Plastic cards settlements. Plastic cards settlements are accounted for on the accruals basis and are carried at amortised cost. Plastic cards settlements are recorded when the legal right to receive the payment or legal obligation to execute payment arise under the agreement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities on initial recognition included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest rate method is accounted for in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. Translation differences are included in Net foreign exchange translation gains. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated income statement as gains less losses arising from trading securities in the period in which they arise.

Securities designated at fair value through profit or loss. Securities designated at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses on financial assets carried at amortised cost are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers when deciding whether a financial asset is impaired or not are (i) past due status of financial asset, (ii) financial position of underlying borrower, (iii) unsatisfactory debt servicing and (iv) realisability of related collateral, if any.

A loan is considered past due when the borrower fails to make any payment due under the loan at the reporting date. In this case a past due amount is recognized as the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions. As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Reversals of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Write-off of assets at amortised cost. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of loans and advances to legal entities. Estimating loan portfolio impairment provision for corporate loans involves the following steps:

- Identification of loans that are individually significant, i.e., those loans, that, if fully impaired, would have a material impact on the Group's expected average level of operating income.
- Determination of whether an individually significant loan shows objective evidence of impairment. This requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is considered impaired if its carrying amount materially exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.
- All remaining loans that have not been identified as individually significant are assessed on a portfolio basis.

The Group applies the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and creates portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. Total impairment provisions may exceed the gross amount of individually impaired loans as a result of this methodology.

For the purposes of credit risk measurement and analysis the Group internally classifies loans depending on their quality. The quality of a corporate loan is monitored regularly on the basis of a comprehensive analysis of the borrower's financial position and includes analysis of liquidity, profitability and sufficiency of own funds. The capital structure, organisational structure, credit history and business reputation of the borrower may also be taken into consideration. The Group takes into account the customer's position in the industry and the region, production equipment and level of the technology used as well as the general efficiency of management. Upon analysis corporate borrowers are assigned internal ratings and classes. For the purpose of collective assessment of not past due loans and advances the Group analyses loans of each class in terms of its historical loss and recovery rate separately for renegotiated and non renegotiated loans. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. For the purpose of collective assessment of past due loans and advances Group analyses ageing of past due debts.

Impairment of loans and advances to individuals. For the purpose of credit quality analysis, loans to individuals are grouped by type of credit product into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

Retail loans are deemed fully impaired when the principal and/or interest payment becomes more than 180 days overdue.

Investment securities available for sale. This classification includes investment securities, which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available for sale securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of economic benefits is probable. Exchange differences arising on the settlement of debt investment securities available for sale or on translating of debt investment securities available for sale at rates different from those at which they were translated on initial recognition during the period or in previous financial statements is recognised in profit or loss in the period in which they arise. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment losses are presented in other comprehensive income as losses or gains on investment securities available for sale.

If the Group has both the intention and ability to hold investment securities available for sale to maturity, they may be reclassified as investment securities held to maturity. In this case the fair value of securities as at the date of reclassification becomes their new amortised cost. For instruments with a fixed maturity the revaluation reserve as at the date of reclassification is amortised to profit or loss during the period until maturity using the effective interest rate method.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or due to corporate customers.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, in accordance with the nature of the counterparty and the term of the deal.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the sale proceeds are recorded as a liability held for trading representing the obligation to repurchase and return the securities. The liability is carried at fair value with effects of remeasurement presented as gains less losses arising from trading securities in the consolidated income statement. The obligation to return the securities is recorded at fair value in due to other banks or due to corporate customers.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition or upon reclassification from available for sale category when the Group changes its expectations and has the ability to hold investment securities which were previously classified as available for sale to maturity. The Group reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. Refer to paragraph below on treatment of renegotiations which lead to derecognition of financial assets.

Renegotiated financial assets. From time to time in the normal course of business the Group performs restructuring of financial assets, mostly of loans.

Accounting treatment of renegotiations which do not lead to derecognition of financial assets. If terms of an agreement are not materially modified, restructuring of financial instruments leads to reassessment of effective interest rate based on current carrying amount and modified future cash flows.

Accounting treatment of renegotiations which lead to derecognition of financial assets. Material modifications of agreement terms lead to derecognition of a financial asset and a recognition of a new asset at fair value. The following principal modifications in terms are considered to be material:

- Change of currency in which cash flows are denominated;
- Consolidation or separation of several financial instruments;
- Present value of the cash flows under the new terms discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In both cases if the restructuring of financial assets is due to financial difficulties of a borrower, financial assets are assessed for impairment before recognition of a renegotiation.

Goodwill. Goodwill represents the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in other assets or separately disclosed on the face of the statement of financial position if material. Goodwill on acquisitions of associates is included as part of investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment before aggregation. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Premises and equipment. Equipment and premises other than office premises are stated at cost less accumulated depreciation. Office premises of the Group are held at revalued amount subject to revaluation to market value on a regular basis. The revaluation gains are recognised in other comprehensive income. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for office premises included in equity is transferred directly to retained earnings on a straight-line basis as the asset is used by the Group. On the retirement or disposal of the asset the remaining revaluation reserve is immediately transferred to the retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises or other premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired premises are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in other comprehensive income.

Positive revaluation shall be recognised in profit or loss to the extent that it reverses a negative revaluation of the same asset previously recognised in profit or loss. The amount that exceeds negative revaluation previously charged to profit or loss shall be recognised in other comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following annual rates are applied for the main categories of premises and equipment:

Premises	2.5-3.3%;
Other premises	2.5%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is stated at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognised in consolidated income statement as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated income statement within other operating income.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Subsequent expenditure on investment property is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently revalued and depreciated.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the Group is a lessor lease receivables are recognised at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables. The net investment in finance lease is recorded within loans and advances to customers.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Due to individuals and corporate customers. Amounts due to individuals and corporate customers are non-derivative liabilities to individuals and corporate customers (including state agencies) and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, savings certificates and other debt securities issued by the Group. Debt securities in issue are stated at amortised cost.

Other borrowed funds*.* Other borrowed funds represent medium and long-term funds attracted by the Group on financial markets. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Group on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward and future contracts, option contracts on financial instruments and SWAP contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the Consolidated income statement in net gains/ (losses) arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains; changes in the fair value of derivative financial instruments on precious metals are included in net gains/ (losses) arising from operations with precious metals and precious metals derivatives; changes in the fair value of derivatives on securities, interest rates and other derivatives – in net gains/ (losses) arising from operations with other derivatives. The Group does not apply “hedge accounting” according to IAS 39.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is recognised for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognised for temporary differences on initial recognition of goodwill or any other asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Income and expense recognition. Interest income and expense are recorded in profit or loss for interest-bearing instruments on an accrual basis using the effective interest rate method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded based on the asset's original effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded proportionally over the period the service is provided.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

3 Basis of Preparation and Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency are recognised in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(I) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;

(II) income and expenses for each statement of comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in other components of comprehensive income and taken to a separate component of equity.

The cumulative balance of currency translation differences presented in equity at 31 December 2010 amounted to a loss of RR 1 136 million (31 December 2009: loss of of RR 1 009 million).

At 31 December 2010 the principal rates of exchange used for translating each entity's functional currency into the Group's presentation currency and foreign currency monetary balances were as follows:

	/RUR	/UAH	/BYR	/KZT
RUR/	1	0.261	98.039	4.836
USD/	30.477	7.961	2987.941	147.387
EUR/	40.333	10.535	3954.215	195.050

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 32. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Assets under management. The Group has set up mutual investment funds and acts as the manager of their assets. The assets of these funds do not represent assets of the Group and therefore are not reported on the consolidated statement of financial position. The management fee income is recorded in the consolidated income statement within fee and commission income.

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised by the Group in its consolidated statement of financial position, but disclosed in the notes to the consolidated financial statements if inflow of economic benefits is probable.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. The Group determined its operating segments on the basis of organizational structure of the Group and geographical areas. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Segments whose revenue, result or assets are 10% or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Also, the Group's management accounting system in some cases does not allow collecting all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount or settle a position close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held to maturity as at 31 December 2010 refer to Note 34.

An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

Fair value of financial instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore sometimes not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Related party transactions. The Group's principal shareholder is the Bank of Russia (refer to Note 1). Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Notes 35 and 36.

Revaluation of office premises. The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not materially differ from its fair value. Office premises have been revalued to market value at 31 December 2009. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2010. The Group performs revaluation using appropriate valuation techniques and information about real estate transactions on the local market. The results received from the application of the above valuation methods, however, may not always correspond to the price of actual transactions on the real estate market.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost. Determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Changes in presentation. For the purposes of more accurate and fair presentation of net gains on operations with derivatives in the consolidated income statement, the presentation of comparative figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications on the consolidated income statement for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As reclassified**
Net gains arising from trading securities	14 078	(768)	13 310
Net gains arising from operations with other derivatives	-	768	768

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

For the purposes of a more accurate and fair presentation of other assets, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes in presentation of other assets for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	As previously reported	Reclassification	As reclassified
Other financial assets			
Trade receivables	-	1 603	1 603
Accrued fees and commissions	-	2 153	2 153
Receivables on penalties	2 434	(2 434)	-
Other financial assets	3 056	281	3 337
Other non-financial assets			
Prepayments for premises and other assets	21 806	(1 603)	20 203
Investments in associates	-	31	31
Other non-financial assets	4 028	(31)	3 997

For the purposes of a more accurate and fair presentation of other liabilities, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes in presentation of other liabilities for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	As previously reported	Reclassification	As reclassified
Other financial liabilities			
Deferred gains on initial recognition of financial instruments	3 863	(3 863)	-
Other non-financial liabilities			
Deferred gains on initial recognition of financial instruments	-	3 863	3 863

For the purposes of more accurate and fair presentation of operating expenses, the presentation of comparative figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	As previously reported	Reclassification	As reclassified
Telecommunication and office supplies expenses	28 726	(28 726)	-
Other costs of premises and equipment	6 220	11 026	17 246
Administrative expenses	-	11 637	11 637
Telecommunication expenses	-	6 063	6 063

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Group Cash-settled Share – based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

Improvements to International Financial Reporting Standards. In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 “Improvements to IFRS” had no impact on the accounting policies, financial position or performance of the Group, except for the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group’s chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 *Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group’s consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on the Group's future consolidated financial statements.

Related Party Disclosures – Amendment to IAS 24 (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amendment on its future consolidated financial statements.

Deferred tax: Recovery of underlying assets – Amendment to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group does not expect the amendments to have any material effect on the Group's future consolidated financial statements as the same principals are applied by the Group.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the interpretation to have any material effect on the Group's future consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on the Group's future consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of (i) financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in consolidated income statement, as long as they represent a return on investment.

6 New Accounting Pronouncements (Continued)

(ii) Relating to measurement of financial liabilities at fair value through profit or loss a requirement was introduced to recognize changes in fair value caused by credit risks in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;
- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;
- IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period;
- IAS 1 was amended to clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements;
- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);
- IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments;
- and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The Group does not expect the amendments to have any material effect on its financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	2010	2009
Cash on hand	297 956	240 641
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	77 447	70 007
Correspondent accounts and placements with other banks with original maturities up to 30 days:		
- Russian Federation	142 417	280 828
- Other countries	167 287	107 467
Reverse-repo agreements with original maturities up to 30 days	34 494	26 578
Total cash and cash equivalents	**719 601**	**725 521**

At 31 December 2010 cash and cash equivalents of RR 34 494 million (2009: RR 26 578 million) are effectively collateralised by securities received under reverse sale and repurchase agreements at a fair value of RR 39 988 million (2009: RR 31 580 million), which the Group has a right to sell or repledge. None of these securities have been sold or repledged (2009: nil).

Correspondent accounts and placements with other banks and reverse-repo agreements with original maturities up to 30 days mostly represent balances with the largest and well-known foreign banks, top rated Russian banks and financial companies. Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2010 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	137 890	1 478	3 049	142 417
- Other countries	142 242	19 991	5 054	167 287
Reverse-repo agreements with original maturities up to 30 days	-	1 461	33 033	34 494
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**280 132**	**22 930**	**41 136**	**344 198**

Analysis by credit quality of the balances with counterparty banks and financial companies at 31 December 2009 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Correspondent accounts and placements with other banks with original maturities up to 30 days:				
- Russian Federation	275 717	1 500	3 611	280 828
- Other countries	101 190	5 788	489	107 467
Reverse-repo agreements with original maturities up to 30 days	158	17 085	9 335	26 578
Total correspondent accounts and placements with other banks and reverse-repo agreements with original maturity up to 30 days	**377 065**	**24 373**	**13 435**	**414 873**

7 Cash and Cash Equivalents (Continued)

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2010 and 31 December 2009 all cash and cash equivalents are neither past due nor impaired.

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

8 Trading Securities

In millions of Russian Roubles	2010	2009
Federal loan bonds (OFZ bonds)	32 037	31 492
Corporate bonds	14 931	18 823
Municipal and subfederal bonds	11 484	13 882
Russian Federation Eurobonds	2 935	24 935
Foreign government bonds	1 994	-
State domestic loan bonds (OVGVZ)	16	15
Total debt trading securities	**63 397**	**89 147**
Corporate shares	2 771	1 875
Total trading securities	**66 168**	**91 022**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from January 2011 to February 2036 (2009: from January 2010 to February 2036), coupon rates from 3% to 12% p.a. (2009: from 0% to 13% p.a.) and yield to maturity from 2% to 9% p.a. (2009: from 5% to 14% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian companies. These bonds have maturity dates from February 2011 to September 2028 (2009: from January 2010 to September 2028), coupon rates from 5% to 18% p.a. (2009: from 4% to 19% p.a.) and yield to maturity from 3% to 18% p.a. (2009: from 3% to 39% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and Euro and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from April 2011 to June 2022 (2009: from March 2010 to June 2017), coupon rates from 5% to 18% p.a. (2009: from 6% to 19% p.a.) and yield to maturity from 5% to 9% p.a. (2009: from 7% to 39% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2009: from July 2018 to March 2030), coupon rates from 5% to 13% p.a. (2009: from 8% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2009: from 5% to 6% p.a.), depending on the type of bond issue.

Foreign government bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity dates from December 2012 to March 2021, coupon rates from 6% to 9% p.a. and yield to maturity from 4% to 19% p.a., depending on the type of bond issue.

State domestic loan bonds (OVGVZ) are interest-bearing securities denominated in US Dollars and issued by the Ministry of Finance of the Russian Federation. The bonds have maturity date in May 2011 (2009: in May 2011); carry an annual coupon of 3% p.a. (2009: 3% p.a.) and yield to maturity 2% p.a. (2009: 3% p.a.).

8 Trading Securities (Continued)

As at 31 December 2010 corporate shares are mostly represented by quoted shares of large Russian metallurgy and oil and gas companies. As at 31 December 2009 corporate shares are mostly represented by oil and gas, metallurgy and transport companies.

Fair value of trading securities is based on their market quotations and valuation models with use of market data.

Trading securities are carried at fair value which reflects credit risk related write downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately for these securities.

Analysis by credit quality of debt trading securities outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	32 037	-	-	32 037
Corporate bonds	5 255	7 369	2 307	14 931
Municipal and subfederal bonds	1 042	10 309	133	11 484
Russian Federation Eurobonds	2 935	-	-	2 935
Foreign government bonds	347	1 647	-	1 994
State domestic loan bonds (OVGVZ)	16	-	-	16
Total debt trading securities	**41 632**	**19 325**	**2 440**	**63 397**

As at 31 December 2010 included in not rated corporate bonds are bonds with fair value of RR 152 million with default rating.

Analysis by credit quality of debt trading securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	31 492	-	-	31 492
Russian Federation Eurobonds	24 935	-	-	24 935
Corporate bonds	8 014	5 536	5 273	18 823
Municipal and subfederal bonds	1 172	12 509	201	13 882
State domestic loan bonds (OVGVZ)	15	-	-	15
Total debt trading securities	**65 628**	**18 045**	**5 474**	**89 147**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2010 included in trading securities are federal loan bonds (OFZ bonds) with fair value of RR 14 715 million (2009: RR 18 105 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. As at 31 December 2009 included in trading securities are Eurobonds of the Russian Federation with fair value of RR 6 348 million also pledged on the special accounts with the Bank of Russia as collateral. Refer to Notes 32 and 35.

At 31 December 2010 and 31 December 2009 there were no renegotiated trading debt securities that would otherwise be past due. Trading debt securities are not collateralised. All trading debt securities are not past due.

Currency and maturity analyses of trading securities are disclosed in Note 31. The information on trading securities issued by related parties is disclosed in Note 36.

9 Securities Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	2010	2009
Federal loan bonds (OFZ bonds)	76 698	94 251
Corporate bonds	4 648	7 153
Municipal and subfederal bonds	1 625	3 880
Total debt securities designated at fair value through profit or loss	**82 971**	**105 284**
Corporate shares	23 904	19 155
Total securities designated at fair value through profit or loss	**106 875**	**124 439**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from January 2011 to November 2021 (2009: from January 2010 to November 2021), coupon rates from 0% to 8% p.a. (2009: from 0% to 13% p.a.) and yield to maturity from 2% to 7% p.a. (2009: from 5% to 14% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian companies. These bonds have maturity dates from February 2011 to December 2011 (2009: from January 2010 to May 2012), coupon rates from 5% to 9% p.a. (2009: from 5% to 17% p.a.) and yield to maturity from 1% to 6% p.a. (2009: from 5% to 28% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from August 2011 to June 2015 (2009: from July 2010 to June 2015), coupon rates from 8% to 12% p.a. (2009: from 8% to 14% p.a.) and yield to maturity from 7% to 8% p.a. (2009: from 9% to 22% p.a.), depending on the type of bond issue.

Corporate shares are quoted and non-quoted shares of large Russian companies valuation of which was performed using professional judgement of Management of the Group and valuation models with use of available market data. As at 31 December 2010 and 31 December 2009 corporate shares are mostly represented by oil and gas and construction companies.

The Group irrevocably designated the above securities that are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because Management of the Group assesses performance of these investments based on their fair values in accordance with the Policy of the Group for securities portfolios classification. Fair value of securities designated at fair value through profit or loss is based on their market quotations and valuation models with use of data both observable and not observable on the open market.

9 Securities Designated at Fair Value through Profit or Loss (Continued)

Securities designated at fair value through profit or loss are carried at fair value, which also reflects credit risk related write downs. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	76 698	-	-	76 698
Corporate bonds	4 233	-	415	4 648
Municipal and subfederal bonds	1 386	239	-	1 625
Total debt securities designated at fair value through profit or loss	**82 317**	**239**	**415**	**82 971**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Federal loan bonds (OFZ bonds)	94 251	-	-	94 251
Corporate bonds	4 644	1 254	1 255	7 153
Municipal and subfederal bonds	3 325	555	-	3 880
Total debt securities designated at fair value through profit or loss	**102 220**	**1 809**	**1 255**	**105 284**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2010 included in securities designated at fair value through profit or loss are federal loan bonds (OFZ bonds) with fair value of RR 31 520 million (2009: RR 39 658 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

At 31 December 2010 and 31 December 2009 there are no renegotiated debt securities designated at fair value through profit or loss that would otherwise be past due. Debt securities designated at fair value through profit or loss are not collateralised. All debt securities designated at fair value through profit or loss are not past due.

Currency and maturity analyses of securities designated at fair value through profit or loss are disclosed in Note 31. The information on securities designated at fair value through profit or loss issued by related parties is disclosed in Note 36.

10 Loans and Advances to Customers

The tables below show credit quality of the Group's loan portfolio by loan classes as at 31 December 2010 and 31 December 2009. For the purposes of these consolidated financial statements a loan is considered past due when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as past due.

31 December 2010:

In millions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	2 519 062	189 630	2 708 692
Specialised loans to legal entities	1 900 813	262 673	2 163 486
Consumer and other loans to individuals	598 304	37 385	635 689
Mortgage loans to individuals	572 339	31 439	603 778
Car loans to individuals	76 792	3 473	80 265
Total loans and advances to customers before provision for loan impairment	**5 667 310**	**524 600**	**6 191 910**
Less: Provision for loan impairment	(276 906)	(425 617)	(702 523)
Total loans and advances to customers net of provision for loan impairment	**5 390 404**	**98 983**	**5 489 387**

31 December 2009:

In millions of Russian Roubles	Not past due loans	Past due loans	Total
Commercial loans to legal entities	2 025 522	180 800	2 206 322
Specialised loans to legal entities	1 760 286	299 698	2 059 984
Consumer and other loans to individuals	526 373	37 991	564 364
Mortgage loans to individuals	482 445	30 342	512 787
Car loans to individuals	96 649	3 739	100 388
Total loans and advances to customers before provision for loan impairment	**4 891 275**	**552 570**	**5 443 845**
Less: Provision for loan impairment	(190 956)	(388 858)	(579 814)
Total loans and advances to customers net of provision for loan impairment	**4 700 319**	**163 712**	**4 864 031**

10 Loans and Advances to Customers (Continued)

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs, federal bodies and municipal authorities of the Russian Federation. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Majority of commercial loans are provided for periods up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Specialised lending to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans. These loans include loans for current needs and overdrafts.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by real estate.

Car loans to individuals include loans for purchasing a car or other vehicle. Car loans are provided for periods of up to 5 years.

10 Loans and Advances to Customers (Continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2010:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	2 457 676	(106 849)	2 350 827	4.3%
Loans up to 30 days overdue	6 895	(2 234)	4 661	32.4%
Loans 31 to 60 days overdue	4 480	(2 261)	2 219	50.5%
Loans 61 to 90 days overdue	7 058	(4 552)	2 506	64.5%
Loans 91 to 180 days overdue	10 398	(6 910)	3 488	66.5%
Loans over 180 days overdue	124 081	(117 807)	6 274	94.9%
Total collectively assessed loans	**2 610 588**	**(240 613)**	**2 369 975**	**9.2%**
Individually impaired				
Not past due	61 386	(39 929)	21 457	65.0%
Loans up to 30 days overdue	1 616	(1 378)	238	85.3%
Loans 31 to 60 days overdue	-	-	-	-
Loans 61 to 90 days overdue	3 896	(2 688)	1 208	69.0%
Loans 91 to 180 days overdue	2 861	(2 423)	438	84.7%
Loans over 180 days overdue	28 345	(25 898)	2 447	91.4%
Total individually impaired loans	**98 104**	**(72 316)**	**25 788**	**73.7%**
Total commercial loans to legal entities	**2 708 692**	**(312 929)**	**2 395 763**	**11.6%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	1 835 754	(77 060)	1 758 694	4.2%
Loans up to 30 days overdue	16 715	(3 805)	12 910	22.8%
Loans 31 to 60 days overdue	2 043	(897)	1 146	43.9%
Loans 61 to 90 days overdue	5 827	(3 330)	2 497	57.1%
Loans 91 to 180 days overdue	3 927	(2 867)	1 060	73.0%
Loans over 180 days overdue	63 018	(57 148)	5 870	90.7%
Total collectively assessed loans	**1 927 284**	**(145 107)**	**1 782 177**	**7.5%**
Individually impaired				
Not past due	65 059	(36 916)	28 143	56.7%
Loans up to 30 days overdue	5 086	(5 072)	14	99.7%
Loans 31 to 60 days overdue	208	(200)	8	96.2%
Loans 61 to 90 days overdue	689	(689)	-	100.0%
Loans 91 to 180 days overdue	1 575	(1 453)	122	92.3%
Loans over 180 days overdue	163 585	(131 345)	32 240	80.3%
Total individually impaired loans	**236 202**	**(175 675)**	**60 527**	**74.4%**
Total specialised loans to legal entities	**2 163 486**	**(320 782)**	**1 842 704**	**14.8%**
Total loans to legal entities	**4 872 178**	**(633 711)**	**4 238 467**	**13.0%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	598 304	(9 776)	588 528	1.6%
Loans up to 30 days overdue	6 521	(159)	6 362	2.4%
Loans 31 to 60 days overdue	2 014	(141)	1 873	7.0%
Loans 61 to 90 days overdue	1 324	(170)	1 154	12.8%
Loans 91 to 180 days overdue	2 177	(490)	1 687	22.5%
Loans over 180 days overdue	25 349	(25 349)	-	100.0%
Total consumer and other loans to individuals	**635 689**	**(36 085)**	**599 604**	**5.7%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	572 339	(5 139)	567 200	0.9%
Loans up to 30 days overdue	3 979	(242)	3 737	6.1%
Loans 31 to 60 days overdue	1 669	(236)	1 433	14.1%
Loans 61 to 90 days overdue	1 206	(246)	960	20.4%
Loans 91 to 180 days overdue	2 060	(891)	1 169	43.3%
Loans over 180 days overdue	22 525	(22 525)	-	100.0%
Total mortgage loans to individuals	**603 778**	**(29 279)**	**574 499**	**4.8%**
Car loans to individuals				
Collectively assessed				
Not past due	76 792	(1 237)	75 555	1.6%
Loans up to 30 days overdue	682	(20)	662	2.9%
Loans 31 to 60 days overdue	248	(17)	231	6.9%
Loans 61 to 90 days overdue	152	(18)	134	11.8%
Loans 91 to 180 days overdue	300	(65)	235	21.7%
Loans over 180 days overdue	2 091	(2 091)	-	100.0%
Total car loans to individuals	**80 265**	**(3 448)**	**76 817**	**4.3%**
Total loans to individuals	**1 319 732**	**(68 812)**	**1 250 920**	**5.2%**
Total loans and advances to customers as at 31 December 2010	**6 191 910**	**(702 523)**	**5 489 387**	**11.3%**

10 Loans and Advances to Customers (Continued)

The table below shows the analysis of loans and provisions for loan impairment as at 31 December 2009:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities				
Collectively assessed				
Not past due	1 968 452	(68 724)	1 899 728	3.5%
Loans up to 30 days overdue	13 910	(4 863)	9 047	35.0%
Loans 31 to 60 days overdue	7 159	(3 472)	3 687	48.5%
Loans 61 to 90 days overdue	7 597	(3 897)	3 700	51.3%
Loans 91 to 180 days overdue	20 011	(12 757)	7 254	63.7%
Loans over 180 days overdue	95 717	(69 741)	25 976	72.9%
Total collectively assessed loans	**2 112 846**	**(163 454)**	**1 949 392**	**7.7%**
Individually impaired				
Not past due	57 070	(27 562)	29 508	48.3%
Loans up to 30 days overdue	47	-	47	0.0%
Loans 31 to 60 days overdue	425	(344)	81	80.9%
Loans 61 to 90 days overdue	1 684	(1 676)	8	99.5%
Loans 91 to 180 days overdue	8 291	(5 166)	3 125	62.3%
Loans over 180 days overdue	25 959	(23 286)	2 673	89.7%
Total individually impaired loans	**93 476**	**(58 034)**	**35 442**	**62.1%**
Total commercial loans to legal entities	**2 206 322**	**(221 488)**	**1 984 834**	**10.0%**
Specialised loans to legal entities				
Collectively assessed				
Not past due	1 731 758	(67 328)	1 664 430	3.9%
Loans up to 30 days overdue	16 027	(4 395)	11 632	27.4%
Loans 31 to 60 days overdue	16 021	(4 395)	11 626	27.4%
Loans 61 to 90 days overdue	8 133	(4 500)	3 633	55.3%
Loans 91 to 180 days overdue	6 569	(3 481)	3 088	53.0%
Loans over 180 days overdue	65 381	(47 809)	17 572	73.1%
Total collectively assessed loans	**1 843 889**	**(131 908)**	**1 711 981**	**7.2%**
Individually impaired				
Not past due	28 528	(12 356)	16 172	43.3%
Loans up to 30 days overdue	2 052	(1 138)	914	55.5%
Loans 31 to 60 days overdue	218	(133)	85	61.0%
Loans 61 to 90 days overdue	2 638	(2 464)	174	93.4%
Loans 91 to 180 days overdue	22 691	(10 960)	11 731	48.3%
Loans over 180 days overdue	159 968	(128 100)	31 868	80.1%
Total individually impaired loans	**216 095**	**(155 151)**	**60 944**	**71.8%**
Total specialised loans to legal entities	**2 059 984**	**(287 059)**	**1 772 925**	**13.9%**
Total loans to legal entities	**4 266 306**	**(508 547)**	**3 757 759**	**11.9%**

10 Loans and Advances to Customers (Continued)

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer and other loans to individuals				
Collectively assessed				
Not past due	526 373	(8 926)	517 447	1.7%
Loans up to 30 days overdue	4 761	(488)	4 273	10.2%
Loans 31 to 60 days overdue	2 339	(476)	1 863	20.4%
Loans 61 to 90 days overdue	1 506	(446)	1 060	29.6%
Loans 91 to 180 days overdue	2 923	(1 440)	1 483	49.3%
Loans over 180 days overdue	26 462	(26 462)	-	100.0%
Total consumer and other loans to individuals	**564 364**	**(38 238)**	**526 126**	**6.8%**
Mortgage loans to individuals				
Collectively assessed				
Not past due	482 445	(4 418)	478 027	0.9%
Loans up to 30 days overdue	4 014	(725)	3 289	18.1%
Loans 31 to 60 days overdue	2 373	(803)	1 570	33.8%
Loans 61 to 90 days overdue	1 574	(776)	798	49.3%
Loans 91 to 180 days overdue	2 866	(2 538)	328	88.6%
Loans over 180 days overdue	19 515	(19 515)	-	100.0%
Total mortgage loans to individuals	**512 787**	**(28 775)**	**484 012**	**5.6%**
Car loans to individuals				
Collectively assessed				
Not past due	96 649	(1 642)	95 007	1.7%
Loans up to 30 days overdue	718	(120)	598	16.7%
Loans 31 to 60 days overdue	397	(120)	277	30.2%
Loans 61 to 90 days overdue	245	(108)	137	44.1%
Loans 91 to 180 days overdue	436	(321)	115	73.6%
Loans over 180 days overdue	1 943	(1 943)	-	100.0%
Total car loans to individuals	**100 388**	**(4 254)**	**96 134**	**4.2%**
Total loans to individuals	**1 177 539**	**(71 267)**	**1 106 272**	**6.1%**
Total loans and advances to customers as at 31 December 2009	**5 443 845**	**(579 814)**	**4 864 031**	**10.7%**

10 Loans and Advances to Customers (Continued)

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2010:

In millions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	161 500	1 273 414	1 022 762	**2 457 676**
Specialised loans to legal entities	80 026	793 995	961 733	**1 835 754**
Consumer and other loans to individuals	5 685	590 441	2 178	**598 304**
Mortgage loans to individuals	7 214	563 935	1 190	**572 339**
Car loans to individuals	425	76 258	109	**76 792**
Total	**254 850**	**3 298 043**	**1 987 972**	**5 540 865**

The table below shows the credit quality analysis of the Group's not past due collectively assessed loans before provision for loan impairment as at 31 December 2009:

In millions of Russian Roubles	1 group	2 group	3 group	Total
Commercial loans to legal entities	143 091	998 354	827 007	**1 968 452**
Specialised loans to legal entities	55 924	784 784	891 050	**1 731 758**
Consumer and other loans to individuals	4 932	518 955	2 486	**526 373**
Mortgage loans to individuals	3 079	476 395	2 971	**482 445**
Car loans to individuals	-	96 596	53	**96 649**
Total	**207 026**	**2 875 084**	**1 723 567**	**4 805 677**

For the purpose of these consolidated financial statements, all not past due collectively assessed loans to legal entities are classified in three quality groups presented in the tables above with group 1 loans being of the highest quality. The 1-st group includes borrowers with sound level of liquidity and profitability as well as high capital adequacy ratio. The probability of breach of loan agreement terms is assessed as low. The 2-nd group includes borrowers with average level of liquidity and profitability as well as average capital adequacy ratio. The probability of breach of loan agreement terms is assessed as moderate. The 3-rd group includes borrowers with satisfactory level of liquidity and profitability as well as moderate capital adequacy ratio. The probability of breach of loan agreement terms is assessed as above moderate.

For the purpose of these consolidated financial statements, all not past due loans to individuals are combined into three groups presented in the tables above. The 1-st group of these loans to individuals is represented by loans with good debt servicing and excellent financial position of a borrower. The 2-nd group is represented by loans with good/average debt servicing and excellent/moderate financial position of a borrower. The 3-rd group is represented by loans with average debt servicing and moderate financial position of a borrower.

As defined by the Group for the purposes of internal credit risk assessment, loans fall into the "non-performing" category when a principal and/or interest payment becomes more than 90 days overdue.

10 Loans and Advances to Customers (Continued)

As at 31 December 2010 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	165 685	(153 038)	12 647	92.4%
Specialised loans to legal entities	232 105	(192 813)	39 292	83.1%
Consumer and other loans to individuals	27 526	(25 839)	1 687	93.9%
Mortgage loans to individuals	24 585	(23 416)	1 169	95.2%
Car loans to individuals	2 391	(2 156)	235	90.2%
Total non-performing loans and advances to customers as at 31 December 2010	**452 292**	**(397 262)**	**55 030**	**87.8%**

As at 31 December 2009 the outstanding non-performing loans were as follows:

In millions of Russian Roubles	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Commercial loans to legal entities	149 978	(110 950)	39 028	74.0%
Specialised loans to legal entities	254 609	(190 350)	64 259	74.8%
Consumer and other loans to individuals	29 385	(27 902)	1 483	95.0%
Mortgage loans to individuals	22 381	(22 053)	328	98.5%
Car loans to individuals	2 379	(2 264)	115	95.2%
Total non-performing loans and advances to customers as at 31 December 2009	**458 732**	**(353 519)**	**105 213**	**77.1%**

10 Loans and Advances to Customers (Continued)

Renegotiatied loans. Information on loans which terms have been renegotiated, as at 31 December 2010 and 31 December 2009 is presented in the table below. It shows the carrying amount for renegotiated loans by class.

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
31 December 2010:						
Not past due collectively assessed loans	402 606	171 884	6 824	1 958	38	583 310
Other renegotiated loans	96 571	54 160	3 299	10 197	184	164 411
Total renegotiated loans before provision for loan impairment	**499 177**	**226 044**	**10 123**	**12 155**	**222**	**747 721**
31 December 2009:						
Not past due collectively assessed loans	375 723	156 981	917	804	32	534 457
Other renegotiated loans	76 913	27 407	2 093	5 890	22	112 325
Total renegotiated loans before provision for loan impairment	**452 636**	**184 388**	**3 010**	**6 694**	**54**	**646 782**

Provisions for Loan Impairment. The analysis of changes in provisions for loan impairment for the year ended 31 December 2010 is presented in the table below:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2010	**221 488**	**287 059**	**38 238**	**28 775**	**4 254**	**579 814**
Net provision charge for loan impairment during the year	118 880	35 863	(1 041)	832	(725)	153 809
Loans and advances written off during the year	(27 439)	(2 140)	(1 112)	(328)	(81)	(31 100)
Provision for loan impairment as at 31 December 2010	**312 929**	**320 782**	**36 085**	**29 279**	**3 448**	**702 523**

10 Loans and Advances to Customers (Continued)

The analysis of changes in provisions for loan impairment for the year ended 31 December 2009 is presented in the table below:

In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Consumer and other loans to individuals	Mortgage loans to individuals	Car loans to individuals	Total
Provision for loan impairment as at 1 January 2009	**82 708**	**75 305**	**30 077**	**12 611**	**1 584**	**202 285**
Net provision charge for loan impairment during the year	147 089	212 421	10 056	16 587	2 779	388 932
Loans and advances written off during the year	(8 309)	(667)	(1 895)	(423)	(109)	(11 403)
Provision for loan impairment as at 31 December 2009	**221 488**	**287 059**	**38 238**	**28 775**	**4 254**	**579 814**

Loan Security. The Group Management’s best estimate of fair value of collateral for past due loans as at 31 December 2010 and 31 December 2009 is presented in the table below:

	2010		2009	
In millions of Russian Roubles	Commercial loans to legal entities	Specialised loans to legal entities	Commercial loans to legal entities	Specialised loans to legal entities
Best estimate of fair value of collateral for past due loans, assessed for impairment on a collective basis, when collateral is :				
- real estate	130 308	77 818	96 410	87 299
- transportation and production equipment	58 650	33 026	43 175	41 399
- goods in turnover	53 883	1 415	53 006	1 710
- tradable securities	-	5 527	-	13 166
- other assets	31 663	118 083	17 360	56 794
Best estimate of fair value of collateral for past due individually impaired loans to legal entities, when collateral is :				
- real estate	292 844	79 458	176 438	322 075
- transportation and production equipment	27 933	35 219	30 106	37 356
- goods in turnover	8 161	136	1 783	506
- tradable securities	2 100	46 769	40 385	45 253
- other assets	12 831	167 062	2 827	98 478
Total	**618 373**	**564 513**	**461 490**	**704 036**

Estimation of the fair value of collateral for past due loans, assessed for impairment on a collective basis, and individually impaired loans to legal entities as at 31 December 2010 and 31 December 2009 was estimated by the Group`s lending departments using Group`s internal methodology. The Group’s policy on collateral requirements is disclosed in Note 31.

Actual net realisable value of collateral may differ from the value disclosed above due to potential difficulties arising during the foreclosure which can not be predicted.

10 Loans and Advances to Customers (Continued)

Investments in finance lease. Included in specialised loans to legal entities are net investments in finance lease. The analysis of net investments in finance lease as at 31 December 2010 and as at 31 December 2009 is as follows:

in millions of Russian Roubles	**2010**	**2009**
Gross investment in finance lease	72 717	49 965
Unearned future finance income on finance lease	(21 274)	(14 380)
Net investment in finance lease before provision for impairment	**51 443**	**35 585**
Less provision for impairment	(1 033)	(1 119)
Net investment in finance lease after provision for impairment	**50 410**	**34 466**

The contractual maturity analysis of net investments in finance lease as at 31 December 2010 is as follows:

In millions of Russian Roubles	**Net investment in finance lease before provision for impairment**	**Provision for impairment**	**Net investment in finance lease after provision for impairment**
Not later than 1 year	18 567	(325)	18 242
Later than 1 year but not later than 5 years	29 303	(657)	28 646
Later than 5 years	3 573	(51)	3 522
Total as at 31 December 2010	**51 443**	**(1 033)**	**50 410**

The contractual maturity analysis of net investments in finance lease as at 31 December 2009 is as follows:

In millions of Russian Roubles	**Net investment in finance lease before provision for impairment**	**Provision for impairment**	**Net investment in finance lease after provision for impairment**
Not later than 1 year	10 371	(577)	9 794
Later than 1 year but not later than 5 years	22 615	(498)	22 117
Later than 5 years	2 599	(44)	2 555
Total as at 31 December 2009	**35 585**	**(1 119)**	**34 466**

10 Loans and Advances to Customers (Continued)

The analysis of minimal finance lease receivables as at 31 December 2010 and 31 December 2009 per contractual maturity is as follows:

In millions of Russian Roubles	**31 December 2010**	**31 December 2009**
Not later than 1 year	19 662	13 890
Later than 1 year but not later than 5 years	41 593	32 234
Later than 5 years	11 462	3 841
Total	**72 717**	**49 965**

Economic sector risk concentration. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2010 and 31 December 2009 are as follows:

		2010		**2009**
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	1 319 732	21.3	1 177 539	21.7
Trade	1 008 025	16.3	960 385	17.7
Services	1 001 330	16.2	748 240	13.7
Food and agriculture	585 394	9.5	511 658	9.4
Construction	404 601	6.5	408 307	7.5
Machine building	317 588	5.1	347 222	6.4
Metallurgy	300 806	4.9	273 814	5.0
Chemical industry	216 833	3.5	186 790	3.4
Energy	208 797	3.4	172 623	3.2
Oil and gas	177 495	2.9	157 078	2.9
Telecommunications	168 042	2.7	164 934	3.0
Government and municipal bodies	153 280	2.5	94 004	1.7
Transport, aviation, space industry	147 540	2.4	109 211	2.0
Timber industry	49 609	0.8	43 955	0.8
Other	132 838	2.0	88 085	1.6
Total loans and advances to customers before provision for loan impairment	**6 191 910**	**100.0**	**5 443 845**	**100.0**

Included into 'services' are loans granted to holding companies and multiindustry companies.

As at 31 December 2010 the Group had 20 largest borrowers with aggregated loan amounts due from each of these borrowers exceeding RR 29 300 million (31 December 2009: 20 largest borrowers with loan amounts due from each of these borrowers exceeding RR 23 000 million). The total aggregate amount of these loans was RR 1 401 637 million or 22.6% of the total gross loan portfolio of the Group (31 December 2009: RR 1 240 189 million or 22.8%).

Interest income accrued on loans, for which individual impairment has been recognised, for the year ended 31 December 2010, comprised RR 8 322 million (2009: RR 3 297 million).

In interest income on loans and advances to customers in the consolidated income statement are included fines and penalties received from borrowers in the amount of RR 10 759 million (2009: RR 5 828 million).

The estimated fair value of loans and advances to customers is disclosed in Note 34. Currency and maturity analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 35 and 36.

11 Securities Pledged under Repurchase Agreements

In millions of Russian Roubles	31 December 2010	31 December 2009
Trading securities pledged under repurchase agreements		
Russian Federation Eurobonds	12 150	-
Investment securities available for sale pledged under repurchase agreements		
Russian Federation Eurobonds	47 027	-
Corporate bonds	13 484	583
Corporate shares	8 276	2 116
Foreign government bonds	556	-
Total securities pledged under repurchase agreements	**81 493**	**2 699**

Securities pledged under repurchase agreements represent securities collateralised under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge. As at 31 December 2010 included in Due to corporate customers are deposits in the amount of RR 5 968 million (31 December 2009: RR 2 174 million) received under sale and repurchase agreements with legal entities. Refer to Note 17. Deposits in the amount of RR 61 803 million (31 December 2009: RR 111 million) received under sale and repurchase agreements with other banks are included in Due to other banks. Refer to Note 16.

Russian Federation Eurobonds included in the portfolio of trading securities and investment securities available for sale pledged under repurchase agreements have maturity dates from July 2018 to March 2030, coupon rates from 8% to 13% p.a. and yield to maturity from 5% to 6% p.a., depending on the type of bond issue.

Corporate bonds included in the portfolio of investment securities available for sale pledged under repurchase agreements have maturity dates from January 2012 to November 2019 (2009: November 2014), coupon rates from 6% to 10% p.a. (2009: from 6% to 9% p.a.) and yield to maturity from 2% to 8% p.a. (2009: from 6% to 8% p.a.), depending on the type of bond issue.

Foreign government bonds included in the portfolio of investment securities available for sale are interest-bearing securities denominated in foreign currencies, issued by foreign governments, and are freely tradable internationally. These bonds have maturity date in October 2012, coupon rate 20% p.a. and yield to maturity 14% p.a.

As at 31 December 2010 corporate shares pledged under repurchase agreements are mostly represented by quoted shares of Russian oil and gas and metallurgy companies. As at 31 December 2009 corporate shares are mostly represented by quoted shares of Russian oil and gas companies.

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Total
Russian Federation Eurobonds	59 177	-	59 177
Corporate bonds	7 620	5 864	13 484
Foreign government bonds	-	556	556
Total debt securities pledged under repurchase agreements	**66 797**	**6 420**	**73 217**

11 Securities Pledged under Repurchase Agreements (Continued)

Analysis by credit quality of debt securities pledged under repurchase agreements outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Total
Corporate bonds	552	31	583
Total debt securities pledged under repurchase agreements	**552**	**31**	**583**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

All corporate bonds pledged under repurchase agreements are not past due. None of the securities pledged under repurchase agreements were renegotiated.

Currency and maturity analyses of securities pledged under repurchase agreements are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

12 Investment Securities Available for Sale

In millions of Russian Roubles	2010	2009
Bonds of the Bank of Russia	433 585	221 080
Federal loan bonds (OFZ bonds)	348 353	213 540
Corporate bonds	275 563	244 142
Municipal and subfederal bonds	50 219	87 948
Foreign government bonds	17 899	6 979
Russian Federation Eurobonds	4 950	54 480
Total debt investment securities available for sale	**1 130 569**	**828 169**
Corporate shares	80 352	17 806
Total investment securities available for sale	**1 210 921**	**845 975**

Bonds of the Bank of Russia are zero-coupon securities denominated in Russian Roubles, issued by the Central Bank of the Russian Federation, and are freely tradable on the domestic market. These bonds have maturity date in March 2011 (2009: in March 2010 and June 2010), yield to maturity of 4% p.a. (2009: from 6% to 7% p.a.).

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from January 2011 to February 2036 (2009: from January 2010 to February 2036), coupon rates from 0% to 12% p.a. (2009: from 0% to 13% p.a.) and yield to maturity from 2% to 10% p.a. (2009: from 5% to 14% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian and CIS companies. These bonds have maturity dates from February 2011 to November 2025 (2009: from January 2010 to August 2037), coupon rates from 1% to 18% p.a. (2009: from 4% to 19% p.a.) and yield to maturity from 2% to 34% p.a. (2009: from 3% to 39% p.a.), depending on the type of bond issue.

12 Investment Securities Available for Sale (Continued)

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and Euro and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from April 2011 to June 2022 (2009: from March 2010 to June 2017), coupon rate from 5% to 18% p.a. (2009: from 5% to 18% p.a.) and yield to maturity from 2% to 9% p.a. (2009: from 3% to 26% p.a.), depending on the type of bond issue.

Foreign government bonds are interest-bearing and non-interest-bearing securities denominated in Russian Roubles and foreign currencies, issued by foreign governments. These bonds have maturity dates from February 2011 to October 2020 (2009: from January 2010 to September 2014), coupon rates from 4% to 20% p.a. (2009: from 0% to 20% p.a.) and yield to maturity from 2% to 20% p.a. (2009: from 2% to 14% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from July 2018 to March 2030 (2009: from July 2018 to March 2030), coupon rates from 8% to 13% p.a. (2009: from 8% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2009: from 5% to 6% p.a.).

Corporate shares are quoted and non-quoted shares of large Russian and CIS companies. As at 31 December 2010 corporate shares are mostly represented by oil and gas, energy, communication, transport, finance and metallurgy companies. As at 31 December 2009 corporate shares are mostly represented by oil and gas, metallurgy, communication and transport companies.

Investment securities available for sale are carried at fair value which also reflects credit risk related write downs. Fair value of investment securities available for sale is based on their market quotations and valuation models with use of data both observable and not observable on the open market. According to the assessment of the Group as at 31 December 2010 impairment of investment securities available for sale comprised RR 39 million (2009: RR 2 274 million) and was recognised in profit or loss. The unrealised gains/(losses) on revaluation of investment securities available for sale other than impairment loss are recognised in other comprehensive income and presented in equity as fair value reserve for investment securities available for sale as at 31 December 2010 in the cumulative gain of RR 24 431 million (2009: loss of RR 598 million). As at 31 December 2010 included in investment securities available for sale are past due fully impaired corporate bonds with nominal value of RR 91 million (2009: nil). None of the investment securities available for sale were renegotiated.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Bonds of the Bank of Russia	433 585	-	-	433 585
Federal loan bonds (OFZ bonds)	348 353	-	-	348 353
Corporate bonds	140 463	100 485	34 615	275 563
Municipal and subfederal bonds	32 769	17 314	136	50 219
Foreign government bonds	6 377	11 448	74	17 899
Russian Federation Eurobonds	4 950	-	-	4 950
Total debt investment securities available for sale	**966 497**	**129 247**	**34 825**	**1 130 569**

As at 31 December 2010 included in not rated corporate bonds are bonds with fair value of RR 287 million with default rating.

12 Investment Securities Available for Sale (Continued)

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Investment rating	Speculative rating	Not rated	Total
Corporate bonds	151 227	61 229	31 686	244 142
Bonds of the Bank of Russia	221 080	-	-	221 080
Federal loan bonds (OFZ bonds)	213 540	-	-	213 540
Municipal and subfederal bonds	59 275	28 403	270	87 948
Russian Federation Eurobonds	54 480	-	-	54 480
Foreign government bonds	4 148	2 831	-	6 979
Total debt investment securities available for sale	**703 750**	**92 463**	**31 956**	**828 169**

Credit quality in the tables above is based on the rating scale developed by the international rating agencies.

As at 31 December 2010 included in investment securities available for sale are federal loan bonds (OFZ bonds) with fair value of RR 42 498 million (2009: RR 65 299 million) and Eurobonds of the Russian Federation with fair value of RR 5 million (2009: RR 13 768 million) pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

Currency and maturity analyses of investment securities available for sale are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

13 Investment Securities Held to Maturity

In millions of Russian Roubles	2010	2009
Federal loan bonds (OFZ bonds)	227 328	-
Municipal and subfederal bonds	86 052	-
Corporate bonds	44 512	-
Foreign government bonds	299	
Total investment securities held to maturity	**358 191**	**-**

In the second and the third quarter of 2010 the Group changed its expectations regarding some part of investments in federal and municipal bonds previously classified as available for sale. Taking into account changed expectations and the ability of the Group to hold investment securities to maturity, these investments were reclassified from available for sale category into held to maturity category. The fair value of reclassified securities as at the dates of reclassification amounted to RR 257 809 million.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from June 2011 to January 2019, coupon rates from 0% to 12% p.a. and yield to maturity from 4% to 7% p.a., depending on the type of bond issue.

13 Investment Securities Held to Maturity (Continued)

Municipal and subfederal bonds are interest-bearing securities denominated in Russian Roubles and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from December 2011 to September 2016, coupon rate from 8% to 18% p.a. and yield to maturity from 6% to 8% p.a., depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in Russian Roubles and foreign currencies, issued by large Russian and CIS companies. These bonds have maturity dates from February 2011 to November 2017, coupon rates from 5% to 15% p.a. and yield to maturity from 2% to 15% p.a., depending on the type of bond issue.

Foreign government bonds are interest-bearing securities denominated in foreign currencies, issued by foreign governments. These bonds have maturity dates from September 2014 to July 2020, coupon rates from 2% to 11% p.a., depending on the type of bond issue, and yield to maturity – 11% p.a.

Analysis by credit quality of debt investment securities held to maturity outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Investment rating**	**Speculative rating**	**Not rated**	**Total**
Federal loan bonds (OFZ bonds)	227 328	-	-	227 328
Municipal and subfederal bonds	70 629	15 423	-	86 052
Corporate bonds	14 478	24 514	5 520	44 512
Foreign government bonds	-	225	74	299
Total investment securities held to maturity	**312 435**	**40 162**	**5 594**	**358 191**

Credit quality in the table above is based on the rating scale developed by the international rating agencies.

As at 31 December 2010 included in investment securities held to maturity are federal loan bonds (OFZ bonds) with carrying value of RR 37 044 million pledged on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 32 and 35.

At 31 December 2010 there are no renegotiated debt investment securities held to maturity that would otherwise be past due. All debt investment securities held to maturity are not past due.

The estimated fair value of investment securities held to maturity is disclosed in Note 34. Currency and maturity analyses of investment securities held to maturity are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In millions of Russian Roubles	Note	Office premises	Other premises	Office and equipment	Vehicles and other equipment	Construction in progress	Total
Cost or revalued amount at 1 January 2009		202 408	-	88 158	12 694	9 712	312 972
Accumulated depreciation		-	-	(54 928)	(6 566)	-	(61 494)
Carrying amount at 1 January 2009		**202 408**	**-**	**33 230**	**6 128**	**9 712**	**251 478**
Additions		6 943	-	25 762	3 541	16 252	52 498
Acquisitions through business combinations		2 877	2 462	506	5 930	3 039	14 814
Transfers		13 446	-	-	-	(13 446)	-
Disposals – at cost or revalued amount		(2 106)	-	(3 210)	(1 723)	(1 789)	(8 828)
Disposals - accumulated depreciation		38	-	3 203	1 492	-	4 733
Depreciation charge	26	(6 935)	(34)	(19 390)	(2 261)	-	(28 620)
Negative revaluation of office premises recognised in profit or loss		(14 996)	-	-	-	-	(14 996)
Negative revaluation of office premises recognised in other comprehensive income		(21 198)	-	-	-	-	(21 198)
Carrying amount at 31 December 2009		**180 477**	**2 428**	**40 101**	**13 107**	**13 768**	**249 881**
Cost or revalued amount at 31 December 2009		181 065	2 462	111 216	20 442	13 768	328 953
Accumulated depreciation		(588)	(34)	(71 115)	(7 335)	-	(79 072)
Additions		12 191	1 585	29 613	2 798	16 895	63 082
Acquisitions through business combinations		979	3 531	78	4 147	2 137	10 872
Transfers		7 965	-	-	-	(7 965)	-
Disposals – at cost or revalued amount		(2 300)	(54)	(4 159)	(5 407)	(1 705)	(13 625)
Disposals - accumulated depreciation		18	2	4 060	1 825	-	5 905
Depreciation charge	26	(5 694)	(34)	(22 852)	(3 779)	-	(32 359)
Carrying amount at 31 December 2010		**193 636**	**7 458**	**46 841**	**12 691**	**23 130**	**283 756**
Cost or revalued amount at 31 December 2010		199 900	7 524	136 748	21 980	23 130	389 282
Accumulated depreciation		(6 264)	(66)	(89 907)	(9 289)	-	(105 526)

Construction in progress consists of construction and refurbishment of the Group's premises. Upon completion, assets are transferred to office premises or other premises.

14 Premises and Equipment (Continued)

Office premises have been revalued to market value at 31 December 2009. The Group performs revaluation using appropriate valuation techniques and information about real estate transactions on the local market. At 31 December 2010 the carrying amount of office premises would have been RR 126 885 million (2009: RR 128 663 million) had the premises been carried at cost less depreciation. The amount reconciles to the carrying value of the office premises as follows:

In millions of Russian Roubles	**2010**	**2009**
Office premises at revalued amount in the statement of financial position	193 636	180 477
Revaluation reserve presented in equity	(53 648)	(55 540)
Negative revaluation of office premises presented in income statement	-	14 996
Difference between accumulated depreciation based on cost and based on revalued amount	(13 103)	(11 270)
Office premises at cost less accumulated depreciation	**126 885**	**128 663**

At 31 December 2010 included in office and computer equipment are fully depreciated items in the amount of RR 27 741 million (2009: RR 31 821 million) and in vehicles and other equipment in the amount of RR 1 120 million (2009: RR 2 613 million).

15 Other Assets

In millions of Russian Roubles	**2010**	**2009**
Other financial assets		
Receivables on plastic cards settlements	91 219	52 324
Derivative financial instruments	9 257	3 965
Settlements on currency conversion operations	6 196	4 645
Trade receivables	5 259	1 603
Accrued fees and commissions	2 758	2 153
Funds in settlement	118	1 502
Other financial assets	3 937	3 337
Provision for impairment of other financial assets	(2 162)	(4 008)
Total other financial assets	**116 582**	**65 521**
Other non-financial assets		
Prepayments for premises and other assets	39 258	20 203
Precious metals	34 767	37 490
Inventory of non-banking subsidiaries	11 589	3 444
Goodwill	8 251	469
Investment property	5 414	2 499
Tax settlements (other than on income)	4 230	741
Intangible assets acquired through business combinations	4 170	2 736
Non-exclusive licences	4 091	2 620
Prepaid expenses	2 840	3 280
Investments in associates	2 479	31
Prepayment on income tax	929	5 752
Non-current assets held for sale	402	3 370
Other non-financial assets	8 658	3 997
Provision for impairment of other non-financial assets	(2 610)	(1 446)
Total other non-financial assets	**124 468**	**85 186**
Total other assets	**241 050**	**150 707**

15 Other Assets (Continued)

As at 31 December 2010 receivables on plastic cards settlements of RR 91 219 million (2009: RR 52 324 million) represent receivables due within 30 days on operations of the Group`s customers with plastic cards.

As at 31 December 2010 included in investments in associates are investments in a company acquired by the Group in December 2010 – OJSC 'Detskiy Mir - Centr', a retail trading company specializing in goods for children. The Group acquired 25% plus one share and a put option which enables the Group to dispose of the shares in three years' time at a fixed price. The option is recorded within derivative financial instruments. The option is exercisable before maturity if certain conditions specified in the agreement are met.

As at 31 December 2009 included in non-current assets held for sale were assets repossessed by the Group from its borrower which were disposed off in 2010.

As at 31 December 2010 and 31 December 2009 the analysis of intangible assets acquired through business combinations is as follows:

In millions of Russian Roubles	2010	2009
Licenses for oil exploitation	2 598	-
Core deposit intangible	1 483	1 872
Long-term land lease rights	-	641
Other	89	223
Total intangible assets acquired through business combinations	**4 170**	**2 736**

Movements in the provision for impairment of other assets during 2010 are as follows:

In millions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2010	**385**	**3 623**	**1 111**	**335**	**5 454**
Net provision charge for impairment during the year	(308)	5 458	(26)	1 313	6 437
Other assets written off during the year as uncollectible	-	(6 996)	(2)	(121)	(7 119)
Provision for impairment at 31 December 2010	**77**	**2 085**	**1 083**	**1 527**	**4 772**

15 Other Assets (Continued)

Movements in the provision for impairment of other assets during 2009 are as follows:

In millions of Russian Roubles	Funds in settlement	Other financial assets	Prepayments for premises and other assets	Other non-financial assets	Total
Provision for impairment at 1 January 2009	**545**	**2 215**	**114**	**564**	**3 438**
Net provision charge for impairment during the year	(160)	1 695	997	(159)	2 373
Other assets written off during the year as uncollectible	-	(287)	-	(70)	(357)
Provision for impairment at 31 December 2009	**385**	**3 623**	**1 111**	**335**	**5 454**

Provision for impairment of other assets is recognised by the Group on operations conducted in the normal course of the Group's business. Provision is accessed on the basis of the Group's best estimates of recoverability of other assets.

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2010	2009
Carrying amount at 1 January		**469**	**-**
Impairment loss		(917)	-
Acquisition of subsidiaries	37	8 699	469
Carrying amount at 31 December		**8 251**	**469**

The estimated fair value of other financial assets is disclosed in Note 34. Currency and maturity analyses of other assets are disclosed in Note 31.

16 Due to Other Banks

In millions of Russian Roubles	2010	2009
Term placements of other banks	87 912	18 215
Sale and repurchase agreements with other banks	61 803	111
Correspondent accounts and overnight placements of other banks	38 716	35 621
Total due to other banks	**188 431**	**53 947**

Term placements of other banks represent funds received on interbank market.

16 Due to Other Banks (Continued)

At 31 December 2010, included in amounts due to other banks are liabilities of RR 61 803 million (2009: RR 111 million) received under sale and repurchase agreements with other banks. Fair value of securities collateralised under these agreements with other banks amounted to RR 74 550 million and was included in securities pledged under repurchase agreements (2009: RR 139 million). Refer to Notes 11 and 32.

The estimated fair value of due to other banks is disclosed in Note 34. Currency and maturity analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

17 Due to Individuals and Corporate Customers

In millions of Russian Roubles	2010	2009
Individuals:		
- Current/demand accounts	785 750	540 455
- Term deposits	4 048 709	3 246 857
Total due to individuals	**4 834 459**	**3 787 312**
State and public organisations:		
- Current/settlement accounts	116 827	104 004
- Term deposits	40 475	32 900
Total due to state and public organisations	**157 302**	**136 904**
Other corporate customers:		
- Current/settlement accounts	1 082 754	861 028
- Term deposits	576 616	653 627
Total due to other corporate customers	**1 659 370**	**1 514 655**
Total due to corporate customers	**1 816 672**	**1 651 559**
Total due to individuals and corporate customers	**6 651 131**	**5 438 871**

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	4 834 459	72.7	3 787 312	69.6
Oil and gas	266 889	4.0	233 772	4.3
Trade	260 559	3.9	241 233	4.5
Services	254 117	3.8	248 421	4.6
Construction	166 905	2.5	153 049	2.8
Machine building	110 165	1.7	102 209	1.9
Energy	104 246	1.6	135 648	2.5
Metallurgy	87 854	1.3	51 935	1.0
Municipal bodies and state organisations	82 717	1.2	54 014	1.0
Food and agriculture	79 381	1.2	73 195	1.3
Chemical	44 269	0.7	51 589	0.9
Other	359 570	5.4	306 494	5.6
Total due to individuals and corporate customers	**6 651 131**	**100.0**	**5 438 871**	**100.0**

17 Due to Individuals and Corporate Customers (Continued)

As at 31 December 2010 included in term deposits of corporate customers are deposits in the amount of RR 5 968 million (31 December 2009: RR 2 174 million) received under sale and repurchase agreements with legal entities. Fair value of securities collateralised under these agreements amounted to RR 6 943 million and was included in securities pledged under repurchase agreements (31 December 2009: RR 2 560 million). Refer to Notes 11 and 32.

As at 31 December 2010 included in Due to corporate customers are deposits of RR 78 749 million (31 December 2009: RR 82 068 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 32.

As at 31 December 2010 the Group had 20 largest customers with balances above RR 7 450 million (31 December 2009: 20 customers with balances above RR 7 500 million). The aggregate balance of these customers was RR 561 760 million (31 December 2009: RR 456 986 million) or 8.4% (31 December 2009: 8.4%) of total due to individuals and corporate customers.

The estimated fair value of due to individuals and corporate customers is disclosed in Note 34. Currency and maturity analyses of due to individuals and corporate customers are disclosed in Note 31. The information on related party balances is disclosed in Notes 35 and 36.

18 Debt Securities in Issue

In millions of Russian Roubles	**2010**	**2009**
Promissory notes	96 505	101 294
Savings certificates	13 102	17 844
Deposits certificates	1 889	5 461
Other debt securities	7 930	-
Total debt securities in issue	**119 426**	**124 599**

Promissory notes are interest-bearing or discount securities issued by the Group. They are denominated in Russian Roubles, US Dollars and Euro and have maturity dates from ”on demand” to December 2013 (2009: from ”on demand” to December 2012). Interest or discount rates on promissory notes issued by the Group vary from 0.3% to 10.4% p.a. (2009: from 0.3% to 10.1% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Group. They are denominated in Russian Roubles and Byelorussian Roubles and have maturity dates from ”on demand” to December 2013 (2009: from “on demand” to December 2012). Interest rates on these securities vary from 0.03% to 18.0% p.a. (2009: from 5.6% to 8.8% p.a.).

Other debt securities represent interest-bearing securities issued by the Group. They are denominated in Byelorussian Roubles, Kazakh Tenge, US Dollars and Euro and have maturity dates from ”on demand” to 2019. Interest rates on these securities vary from 4.0% to 16.5% p.a.

The estimated fair value of debt securities in issue is disclosed in Note 34. Currency and maturity analyses of debt securities in issue are disclosed in Note 31.

19 Other Borrowed Funds

In millions of Russian Roubles	2010	2009
Loan participation notes issued under the MTN programme	153 273	46 149
Syndicated loans received	96 904	58 703
Other long-term borrowings	20 588	10 361
Total other borrowed funds	**270 765**	**115 213**

At 31 December 2010 included in loan participation notes issued under the MTN programme are notes issued by the Group under USD 10 000 million loan participation notes MTN issuance programme. In May 2006 the Group issued the first series of notes under this programme in the amount of USD 500 million equivalent to RR 13 472 million as at the date of issue. As at 31 December 2010 these notes were accounted for at amortised cost of RR 15 539 million (2009: RR 13 624 million). The notes mature in May 2013 and have contractual fixed interest rate of 6.5% p.a. As at 31 December 2010 the effective interest rate on the notes was 6.6% p.a. (2009: 6.6% p.a.).

In November 2006 the Group issued the second series of loan participation notes under the MTN issuance programme in the amount of USD 750 million equivalent to RR 19 965 million as at the date of issue. As at 31 December 2010 these notes were accounted for at amortised cost of RR 23 098 million (2009: RR 20 648 million). The notes mature in November 2011 and have contractual fixed interest rate of 5.9% p.a. As at 31 December 2010 the effective interest rate on the notes was 6.0% p.a. (2009: 6.0% p.a.).

In July 2008 the Group issue the third series of notes under the MTN issuance programme in the amount of USD 500 million equivalent to RR 11 734 million as at the date of issue. As at 31 December 2010 this loan was accounted for at amortised cost of RR 15 843 million (2009: RR 11 877 million). This loan matures in July 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2010 the effective interest rate on the loan was 6.6% p.a. (2009: 6.6% p.a.).

In October 2008 the Group received a syndicated loan in the amount of USD 1 200 million from a consortium of foreign banks equivalent to RR 32 375 million as at the date of issue. As at 31 December 2010 the loan was accounted for at amortised cost of RR 36 513 million (2009: RR 36 069 million). The loan matures in October 2011 and has contractual floating interest rate of 3 months LIBOR + 0.85%. As at 31 December 2010 the effective interest rate on the loan was 1.6% p.a. (2009: 1.6% p.a.).

In July 2010 the Group issued the fourth series of loan participation notes under the MTN issuance programme in the amount of USD 1 000 million equivalent to RR 31 112 million as at the date of issue. The notes mature in July 2015 and have contractual fixed interest rate of 5.5% p.a. Additional notes of USD 500 million (equivalent to RR 15 093 million as at the date of issue) were issued In August 2010 with a premium and form a single series with the fourth series issue. Additional notes have the same interest rate and maturity date. As at 31 December 2010 the notes were accounted for at amortised cost of RR 47 124 million; the effective interest rate on the notes was 5.4% p.a.

In September 2010 the Group issued the fifth series of loan participation notes under the MTN issuance programme in the amount of USD 1 000 million equivalent to RR 31 003 million as at the date of issue. The notes mature in March 2017 and have contractual fixed interest rate of 5.4% p.a. In October 2010 the Group issued additional notes for USD 250 million (equivalent to RR 7 631 million as at the date of issue) with a premium which form a single series with the fifth series issue and have the same interest rate and maturity. As at 31 December 2010 the notes were accounted for at amortised cost of RR 38 681 million; the effective interest rate was 5.4% p.a.

In November 2010 the Group issued the sixth series of loan participation notes under the MTN issuance programme in the amount of CHF 400 million equivalent to RR 12 577 million as at the date of issue. The notes mature in November 2014 and have contractual fixed interest rate of 3.5% p.a. As at 31 December 2010 the notes were accounted for at amortised cost of RR 12 988 million; the effective interest rate on the notes was 3.6% p.a.

19 Other Borrowed Funds (Continued)

In December 2010 the Group received a syndicated loan in the amount of USD 2 000 million from a consortium of foreign banks equivalent to RR 61 506 million as at the date of issue. As at 31 December 2010 the loan was accounted for at amortised cost of RR 60 391 million. This loan matures in December 2013 and had contractual floating interest rate of 6 months LIBOR + 1.5% p.a. As at 31 December 2010 the effective interest rate on the loan was 2.3% p.a.

During the year ended 31 December 2010 the Group partly repurchased loan participation notes, recognised at amortised cost of RR 2 123 million. The transaction was organised as a buy-out of the notes from the market. As a result of this transaction the Group has received a net loss in the amount of RR 87 million included in the Consolidated income statement (for the year ended 31 December 2009 a net gain of RR 627 million). In 2010 the Group partly disposed of the loan participation notes which were previously bought back from the market. The sale was conducted in several tranches. Amortised cost of the newly recognised liabilities comprised RR 9 392 million as at 31 December 2010. Effective interest rates varied from 2.5 % to 4.3 % p.a.

Other long-term borrowings represent funding received by the Group from foreign export agencies via foreign banks, which was used by the Group for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2010 these borrowings were accounted for at amortised cost of RR 20 588 million (31 December 2009: RR 10 361 million), had interest rates varying from 0.1% to 9.1% p.a. (31 December 2009: from 1.0% to 6.8% p.a.) and maturity dates from January 2011 to June 2019 (31 December 2009: from February 2010 to January 2016).

The estimated fair value of other borrowed funds is disclosed in Note 34. Currency and maturity analyses of other borrowed funds are disclosed in Note 31.

20 Other Liabilities

In millions of Russian Roubles	**2010**	**2009**
Other financial liabilities		
Plastic card payables	25 425	13 170
Trade payables	9 318	2 970
Funds in settlement	5 071	1 579
Deposit insurance system fees payable	4 476	3 449
Derivative financial instruments	1 553	10 589
Deferred commissions received on guarantees issued	1 222	799
Other	2 109	562
Total other financial liabilities	**49 174**	**33 118**
Other non-financial liabilities		
Accrued employee benefit costs	15 709	11 781
Taxes payable other than on income	8 573	5 606
Income tax payable	7 761	10 195
Advances received	5 648	2 523
Deferred gains on initial recognition of financial instruments	4 108	3 863
Other	1 200	2 755
Total other non-financial liabilities	**42 999**	**36 723**
Total other liabilities	**92 173**	**69 841**

20 Other Liabilities (Continued)

As at 31 December 2010 and 31 December 2009 the movements in deferred gains on initial recognition of financial instruments are as follows:

In millions of Russian Roubles	**Deferred gains on initial recognition of financial instruments**
Carrying amount at 1 January 2009	**-**
Additions	4 266
Amortisation transferred to Income statement	(403)
Carrying amount at 31 December 2009	**3 863**
Additions	1 104
Amortisation transferred to Income statement	(859)
Carrying amount at 31 December 2010	**4 108**

Defined benefit plans of the Group. The Group applies IAS 19 *Employee benefits* for accounting for its pension liabilities. The Group operates defined benefit plans and takes direct liability to provide pension payments defined according to the Group's pension programmes. As at 31 December 2010 the Group operates 19 separate pension programmes, for Central Head Office and each Regional Head Office. The programmes cover 230 696 employees (2009: 248 033 employees).

29 435 pensioners are entitled to permanent additional payments (2009: 27 818 pensioners) and 36 184 pensioners are entitled to one-time payments (retirement payments, compensation of funeral costs and some others) (2009: 32 105 pensioners). Under majority of the programmes the amount of payments is determined based on employee standing with the Group at the date of retirement. As at 31 December 2010 pension liabilities of the Group comprised RR 7 842 million (2009: RR 5 871 million). Pension expenses for 2010 amounted to RR 1 898 million (2009: RR 1 516 million) and were included in staff costs within operating expenses.

The estimated fair value of other financial liabilities is disclosed in Note 34. Currency and maturity analyses of other liabilities are disclosed in Note 31.

21 Subordinated Debt

In millions of Russian Roubles	2010	2009
Subordinated debt received from the Bank of Russia	303 299	504 346
Subordinated debt received on international financial markets	-	14 504
Other subordinated debts	214	211
Total subordinated debt	**303 513**	**519 061**

In February 2005 the Group received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of an aggregate principal amount of USD 1 000 million Loan Participation Notes at contractual interest rate of 6.2% p.a. and maturity in February 2015, which were issued for the sole purpose of financing a ten-year subordinated loan to the Group. As at 31 December 2009 this subordinated debt was accounted for at amortised cost of RR 14 504 million and the effective interest rate on the loan was 6.4% p.a. In February 2010 the Group repaid subordinated loan in full.

In December 2008 the Group received a subordinated loan of RR 500 000 million from the Bank of Russia with a contractual fixed interest rate of 8.0% p.a. The transaction was structured in three tranches. In May 2010 the Group paid back RR 200 000 million of the loan. The remaining part of the loan matures in December 2019. On 30 July 2010 under the additional agreement with the Bank of Russia the interest rate was changed to 6.5% p.a. As at 31 December 2010 the loan was accounted for at amortised cost of RR 303 299 million; the effective interest rate on the loan was 6.5% p.a.

In the event of the Bank's liquidation the holders of these debts would be subordinated to all other creditors.

The estimated fair value of subordinated debt is disclosed in Note 34. Currency and maturity analyses of subordinated debt are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

22 Share Capital

In millions of Russian Roubles, except for number of shares	2010 Number of shares, in thousands	2010 Nominal amount	2010 Inflation adjusted amount	2009 Number of shares, in thousands	2009 Nominal amount	2009 Inflation adjusted amount
Ordinary shares	21 586 948	64 761	83 337	21 586 948	64 761	83 337
Preference shares	1 000 000	3 000	4 405	1 000 000	3 000	4 405
Less: Treasury shares						
- Ordinary shares	(5)	-	-	(5)	-	-
Total share capital	**22 586 943**	**67 761**	**87 742**	**22 586 943**	**67 761**	**87 742**

The movement in the number of ordinary shares for the years ended 31 December 2010 and 31 December 2009 is as follows:

In thousands	2010	2009
Number of ordinary shares as at the 1 January	**21 586 943**	**21 584 936**
Disposal of treasury shares	-	2 007
Number of ordinary shares as at the 31 December	**21 586 943**	**21 586 943**

As at 31 December 2010 all ordinary shares have a nominal value of RR 3 per share and rank equally. Each ordinary share carries one vote. All issued ordinary shares are fully paid. Preference shares have a nominal value of RR 3 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared, the preference shareholders obtain the right to vote as ordinary shareholders, but lose this right when the next dividend is paid. Preference share dividends are set at 15.0% p.a. in 2010 for the year ended 31 December 2009 (2009: 21.0% p.a. for the year ended 31 December 2008). Preference share dividends rank above ordinary dividends.

On 26 June 2009 by the Annual Shareholders' Meeting a decision was passed to increase the Bank's authorized capital through a placement of ordinary shares by open subscription within the limit of authorized shares (15 billion shares). As at 31 December 2010 the issue has not yet been performed.

23 Interest Income and Expense

In millions of Russian Roubles	2010	2009
Interest income		
Interest income on financial assets carried at amortised cost and on financial assets available for sale:		
- Loans and advances to customers	682 010	752 647
- Debt investment securities available for sale	83 219	40 190
- Debt investment securities held to maturity	9 101	-
- Due from other banks	7 955	7 433
- Correspondent accounts with other banks	118	708
	782 403	**800 978**
Interest income on financial assets carried at fair value through profit or loss:		
- Debt trading securities	7 503	6 654
- Debt securities designated at fair value through profit or loss	5 740	7 330
	13 243	**13 984**
Total interest income	**795 646**	**814 962**
Interest expense		
Term deposits of individuals	(213 384)	(186 400)
Term deposits of legal entities	(29 747)	(46 199)
Subordinated debt	(28 219)	(41 289)
Current/settlement accounts of legal entities	(9 089)	(11 439)
Debt securities in issue	(8 776)	(9 184)
Other borrowed funds	(5 950)	(5 408)
Current/demand accounts of individuals	(2 628)	(1 369)
Term placements of other banks	(1 640)	(10 416)
Correspondent accounts of other banks	(392)	(541)
Total interest expense	**(299 825)**	**(312 245)**
Net interest income	**495 821**	**502 717**

24 Fee and Commission Income and Expense

In millions of Russian Roubles	2010	2009
Fee and commission income		
Cash and settlements transactions with individuals	41 845	34 416
Cash and settlements transactions with legal entities	40 623	36 922
Plastic cards operations	23 639	17 684
Agent commissions on selling insurance contracts	9 448	550
Operations with foreign currencies	5 858	7 889
Cash collection	4 445	4 145
Guarantees issued	2 717	1 863
Transactions with securities	1 116	1 403
Other	1 258	851
Total fee and commission income	**130 949**	**105 723**
Fee and commission expense		
Settlement transactions	(5 373)	(3 758)
Cash collection	(254)	(166)
Operations with foreign currencies	(101)	(182)
Other	(1 647)	(528)
Total fee and commission expense	**(7 375)**	**(4 634)**
Net fee and commission income	**123 574**	**101 089**

25 Net Gains Arising from Trading in Foreign Currencies, Operations with Foreign Currency Derivatives and Foreign Exchange Translation Gains

In millions of Russian Roubles	2010	2009
Net gains arising from trading in foreign currencies	8 081	13 058
Net foreign exchange translation gains	15 166	15 305
Net losses from operations with foreign currency derivatives	(9 175)	(12 135)
Total net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	**14 072**	**16 228**

Net foreign exchange translation gains include net foreign exchange translation losses arising on operations with securities at fair value through profit or loss in the amount of RR 287 million (2009: a gain of RR 339 million).

Operations of trading in foreign currencies and foreign currency derivatives include both operations with clients and the Group's proprietary operations for liquidity management. The Group's proprietary operations are mostly represented by foreign exchange swap transactions.

26 Operating Expences

In millions of Russian Roubles	Note	2010	2009
Staff costs		161 180	128 624
Depreciation of premises and equipment	14	32 359	28 620
Other costs of premises and equipment		19 789	17 246
State deposit insurance system membership fee		16 718	13 047
Administrative expenses		14 227	11 637
Taxes other than on income		12 586	10 282
Operating lease expense for premises and equipment		8 644	6 972
Telecommunication expenses		8 187	6 063
Advertising and marketing services		2 867	2 187
Consulting and assurance services		1 760	1 400
Other		4 302	3 199
Total operating expenses		**282 619**	**229 277**

Included in staff costs are compulsory statutory social security and pension contributions of RR 21 758 million (2009: RR 20 026 million).

27 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2010	2009
Current tax	50 622	17 559
Deferred tax	4 062	(8 207)
Less: Deferred tax recognised in other comprehensive income	(6 197)	(3 884)
Income tax expense for the year	**48 487**	**5 468**

The income tax rate applicable to the major part of the Group's income for 2010 is 20% (2009: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

In millions of Russian Roubles	2010	2009
IFRS profit before tax	**230 135**	**29 864**
Theoretical tax charge at statutory rate (2010: 20%; 2009: 20%)	46 027	5 973
Tax effect on income on government securities taxed at different rates	(2 367)	(1 497)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	790	235
- Unrecognised tax assset of subsidiaries	1 300	-
- Non-deductible losses on cessions	1 184	-
- Other non-temporary differences	1 553	757
Income tax expense for the year	**48 487**	**5 468**

27 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%), except for income on state, municipal and certain other types of securities that is taxed at 15%, 9% and 0% (2009: 15%, 9% and 0%) and on dividends that is taxed at a standard rate of 9% (2009: 9%).

In millions of Russian Roubles	**31 December 2009**	**Business combinations**	**Credited/ (charged) to profit or loss**	**Recognised in other comprehensive income**	**31 December 2010**
Tax effect of deductible temporary differences					
Deferred fees and commissions income	6 298	-	(547)	-	5 751
Accrued employee benefit costs	2 446	-	(2 406)	-	40
Low value items write-off	1 163	-	167	-	1 330
Accrued interest on loans	3 978	-	2 660	-	6 638
Fair valuation of trading securities and securities designated at fair value through profit or loss	(2 980)	-	7 143	-	4 163
Gross deferred tax asset	**10 905**	**-**	**7 017**	**-**	**17 922**
Tax effect of taxable temporary differences					
Loan impairment provision	3 361	-	(464)	-	2 897
Premises and equipment	15 611	335	1 943	(39)	17 850
Fair valuation of investment securities available for sale	(1 869)	-	1 154	6 236	5 521
Other	(1 600)	(592)	2 249	-	57
Gross deferred tax liability	**15 503**	**(257)**	**4 882**	**6 197**	**26 325**
Total net deferred tax asset/(liability)	**(4 598)**	**257**	**2 135**	**(6 197)**	**(8 403)**

27 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2008	Business combinations	Credited/ (charged) to profit or loss	Recognised in other comprehensive income	31 December 2009
Tax effect of deductible temporary differences					
Deferred fees and commissions income	5 782	-	516	-	6 298
Accrued employee benefit costs	2 164	-	282	-	2 446
Low value items write-off	1 131	-	32	-	1 163
Accrued interest on loans	-	-	3 978	-	3 978
Fair valuation of investment securities available for sale	9 550	-	460	(8 141)	1 869
Other	397	(316)	1 519	-	1 600
Gross deferred tax asset	**19 024**	**(316)**	**6 787**	**(8 141)**	**17 354**
Tax effect of taxable temporary differences					
Loan impairment provision	6 493	-	(3 132)	-	3 361
Premises and equipment	20 277	1 973	(2 382)	(4 257)	15 611
Fair valuation of trading securities and securities designated at fair value through profit or loss	2 770	-	210	-	2 980
Gross deferred tax liability	**29 540**	**1 973**	**(5 304)**	**(4 257)**	**21 952**
Total net deferred tax asset/(liability)	**(10 516)**	**(2 289)**	**12 091**	**(3 884)**	**(4 598)**

As at 31 December 2010, the temporary difference associated with investments in subsidiaries in the statement of financial position of the parent company amounted to RR 27 037 million (2009: RR 8 602 million). In accordance with IAS 12 *Income taxes* respective deferred tax asset of RR 5 407 million (2009: respective deferred tax liability of RR 1 720 million) was not recognized in the financial statements.

28 Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore the diluted earnings per share equals the basic earnings per share.

In millions of Russian Roubles	**2010**	**2009**
Profit for the year attributable to the shareholders of the Bank	182 131	24 396
Less preference dividends declared	(450)	(630)
Profit attributable to the ordinary shareholders of the Bank	**181 681**	**23 766**
Weighted average number of ordinary shares in issue (millions)	21 587	21 585
Earnings per ordinary share, basic and diluted (expressed in RR per share)	**8.42**	**1.10**

29 Dividends

		2010		**2009**
In millions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	92	30	113	29
Dividends declared during the year ended 31 December	1 727	450	10 362	630
Dividends paid during the year ended 31 December	(1 754)	(451)	(10 383)	(629)
Dividends payable as at 31 December	**65**	**29**	**92**	**30**
Dividends per share declared during the year (RR per share)	**0.08**	**0.45**	**0.48**	**0.63**

All dividends were declared and paid in Russian Roubles.

30 Segment Analysis

For the purposes of management the Group is divided into operating segments of activity – central head office, 17 regional head offices and subsidiaries – which are defined on the basis of organizational structure of the Group and geographical areas. The principal activity of all operating segments is banking operations. For the purposes of presentation in these consolidated financial statements the operating segments are aggregated in the following reportable segments:

- **Moscow**

this segment includes the following:

- Central head office of the Group,
- Regional head office of Moscow,
- Subsidiaries of the Group located in the region.

30 Segment Analysis (Continued)

- **Central and Northern regions of European part of Russia**

this segment includes the following:

Regional head offices:

- Severny – Yaroslavl,
- Severo-Zapadny – Saint-Petersburg,
- Tsentralno-Chernozemny – Voronezh,
- Srednerussky – Moscow;

Subsidiaries of the Group located in the region.

- **Volga region and South of European part of Russia**

this segment includes the following:

Regional head offices:

- Volgo-Vyatsky – Nizhniy Novgorod,
- Povolzhsky – Samara,
- Severo-Kavkazsky – Stavropol,
- Yugo-Zapadny – Rostov-on-Don,

Subsidiaries of the Group located in the region.

- **Ural, Siberia and Far East of Russia**

this segment includes the following:

Regional head offices:

- Zapadno-Uralsky – Perm,
- Uralsky – Ekaterinburg,
- Sibirsky – Novosibirsk,
- Zapadno-Sibirsky – Tumen,
- Severo-Vostochny – Magadan,
- Dalnevostochny – Khabarovsk,
- Vostochno-Sibirsky – Krasnoyarsk,
- Baikalsky – Irkutsk,

Subsidiaries of the Group located in the region.

- **Other countries**

this segment includes the following:

- Subsidiaries located in Ukraine,
- Subsidiaries located in Kazakhstan,
- Subsidiaries located in Belarus,
- A branch office in India.

The Management of the Group analyses operating results of every segment of activity for the purposes of making decision about allocation of resources and assessment of segments' business results. The segments' reporting and operating results which are provided to the Management of the Group for analysis are prepared under Russian accounting standards, except the segments' reporting of the subsidiaries which is prepared under International Financial Reporting Standards.

30 Segment Analysis (Continued)

Intersegment operations are performed on the basis of internal transfer pricing rates which are established, approved and regularly revised by the Management of the Group.

The subsidiaries' activity is controlled by the Group integrally.

Segment reporting of the Group's assets and liabilities as at 31 December 2010 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
TOTAL ASSETS	**4 318 256**	**1 445 164**	**1 163 282**	**1 548 746**	**185 817**	**8 661 265**
TOTAL LIABILITIES	**2 885 376**	**1 776 676**	**1 270 092**	**1 549 502**	**146 145**	**7 627 791**

Segment reporting of the Group's assets and liabilities as at 31 December 2009 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
TOTAL ASSETS	**3 339 279**	**1 269 638**	**1 037 696**	**1 438 970**	**110 590**	**7 196 173**
TOTAL LIABILITIES	**2 497 326**	**1 455 172**	**1 024 070**	**1 276 215**	**85 934**	**6 338 717**

30 Segment Analysis (Continued)

Reconciliation of assets and liabilities as per the reportable segments with the Group's assets and liabilities under IFRS as of 31 December 2010 and 31 December 2009 is as follows:

	Total assets		Total liabilities	
In millions of Russian Roubles	**2010**	**2009**	**2010**	**2009**
Total amount per segment information	**8 661 265**	**7 196 173**	**7 627 791**	**6 338 717**
Adjustment of provisions	55 642	23 660	(19 765)	(25 441)
Additional interest accrued on loans	1 889	6 510	(924)	-
Deferred commission income on loans	(28 753)	(30 696)	388	-
Deferred commission income on guarantees	-	-	1 135	796
Accounting for derivatives at fair value	4 749	619	3 867	10 576
Adjustment of depreciation and cost or revalued amount of premises and equipment including effect of deferred tax	(68 145)	(64 013)	(952)	-
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	184	155	14 831	12 383
Adjustment of amortised cost and partial repurchase of other borrowed funds and subordinated debt	(115)	(24 324)	(292)	(24 866)
Adjustment of income tax	-	(668)	7 018	12 924
Other adjustments	1 811	(2 350)	8 263	1 041
The Group's total amount under IFRS	**8 628 527**	**7 105 066**	**7 641 360**	**6 326 130**

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	Moscow	Central and Northern regions of European part of Russia	Volga region and South of European part of Russia	Ural, Siberia and Far East of Russia	Other countries	Total
Interest income	296 580	153 262	132 496	179 334	14 935	776 607
Interest expense	(117 168)	(69 627)	(48 327)	(58 576)	(6 706)	(300 404)
Inter-segment (expense)/income	(46 536)	31 180	9 875	5 481	-	-
Fee and commission income	23 975	35 992	27 727	38 840	3 927	130 461
Fee and commission expense	(2 584)	(1 404)	(1 027)	(2 160)	(680)	(7 855)
Net gains arising from securities	21 553	6	-	-	84	21 643
Net (losses) gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains/(losses)	(780)	3 237	1 858	2 464	1 847	8 626
Net (losses)/ gains arising from operations with precious metals	(1 767)	624	524	901	(314)	(32)
Other net operating (losses)/gains	6 162	256	(7 551)	(1 604)	282	(2 455)
Operating income before provision charge for loan impairment	**179 435**	**153 526**	**115 575**	**164 680**	**13 375**	**626 591**
Net provision charge for loan impairment	(36 570)	(43 466)	(42 907)	(32 413)	(3 709)	(159 065)
Operating income	**142 865**	**110 060**	**72 668**	**132 267**	**9 666**	**467 526**
Operating expenses	(63 996)	(64 780)	(56 640)	(78 154)	(6 596)	(270 166)
Profit before tax (Segment result)	**78 869**	**45 280**	**16 028**	**54 113**	**3 070**	**197 360**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	9 884	17 133	11 010	14 970	1 588	54 585
Depreciation of premises and equipment	(3 809)	(6 384)	(4 944)	(7 234)	(474)	(22 845)

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2009 is as follows:

In millions of Russian Roubles	**Moscow**	**Central and Northern regions of European part of Russia**	**Volga region and South of European part of Russia**	**Ural, Siberia and Far East of Russia**	**Other countries**	**Total**
Interest income	283 307	158 189	136 779	193 338	4 906	776 519
Interest expense	(147 947)	(62 517)	(44 436)	(56 394)	(1 925)	(313 219)
Inter-segment income/(expense)	19 159	13 491	(9 411)	(23 239)	-	-
Fee and commission income	35 219	37 867	31 121	42 990	1 118	148 315
Fee and commission expense	(3 377)	(196)	(341)	(371)	(164)	(4 449)
Net gains arising from securities	17 389	-	-	-	6	17 395
Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains	13 313	4 278	3 342	2 580	726	24 239
Net (losses)/gains arising from operations with precious metals	(535)	847	691	1 223	-	2 226
Impairment of assets	(3 062)	-	-	-	-	(3 062)
Other net operating (losses)/gains	(13 803)	(506)	(501)	(306)	947	(14 169)
Operating income before provision charge for loan impairment	**199 663**	**151 453**	**117 244**	**159 821**	**5 614**	**633 795**
Net provision charge for loan impairment	(129 957)	(65 653)	(70 918)	(93 263)	(6 798)	(366 589)
Operating income/(expense)	**69 706**	**85 800**	**46 326**	**66 558**	**(1 184)**	**267 206**
Operating expenses	(61 458)	(50 932)	(47 242)	(64 170)	(2 123)	(225 925)
Profit/(loss) before tax (Segment result)	**8 248**	**34 868**	**(916)**	**2 388**	**(3 307)**	**41 281**
Other disclosures						
Capital expenditure incurred (additions of fixed assets)	9 403	10 623	9 551	12 483	1 325	43 385
Depreciation of premises and equipment	(3 494)	(4 775)	(4 283)	(6 742)	(466)	(19 760)

30 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2010 as follows:

In millions of Russian Roubles	**Profit before tax**	**Interest income**	**Interest expense**	**Fee and commission income**	**Net gains/ (losses) arising from operations with securities**	**Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains**
Total amount per reportable segment	**197 360**	**776 607**	**(300 404)**	**130 461**	**21 643**	**8 626**
Adjustment of provisions	28 789	-	-	-	-	-
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(3 024)	-	-	-	-	-
Differences arising on reporting of fee and commission income and expense	1 516	17 589	-	347	-	(5 536)
Differencies arising on securities classification	3 413	1 202	-	-	2 176	35
Accounting for derivatives at fair value	13 549	-	-	-	-	11 224
Additional interest accrued on loans	(4 620)	1 094	-	-	-	-
Adjustment of depreciation and cost or revalued amount of premises and equipment	(4 434)	-	-	-	-	-
Accounting of financial result related to partial repurchase of loan participation notes	(456)	(675)	482	(378)	218	49
Other adjustments	(1 958)	(171)	97	519	(67)	(326)
The Group's total amount under IFRS	**230 135**	**795 646**	**(299 825)**	**130 949**	**23 970**	**14 072**

30 Segment Analysis (Continued)

Reconciliation of profit before tax, interest income and expense, fee and commission income, gains from operations with securities and gains from operations with foreign currencies for the reportable segments with the Group's income statement items under IFRS for the year ended 31 December 2009 as follows:

In millions of Russian Roubles	Profit before tax	Interest income	Interest expense	Fee and commission income	Net gains/ (losses) arising from operations with securities	Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains
Total amount per reportable segment	**41 281**	**776 519**	**(313 219)**	**148 315**	**17 395**	**24 239**
Adjustment of provisions	1 274	-	-	-	-	-
Staff expenses accrued for the year (bonuses, annual leave, pension liabilities)	(1 407)	-	-	-	-	-
Differencies arising on securities' classification	18 946	351	-	-	19 011	(585)
Accounting for derivatives at fair value	(8 376)	-	-	-	-	(7 294)
Additional interest accrued on loans	(394)	(394)	-	-	-	-
Differences arising on reporting of fee and commission income and expense	(2 584)	39 726	-	(42 310)	-	-
Adjustment of depreciation and cost or revalued amount of premises and equipment	(17 485)	-	-	-	-	-
Adjustment of amortised cost and partial repurchase of other borrowed funds and subordinated debt	697	(1 595)	720	-	-	(118)
Other adjustments	(2 088)	355	254	(282)	57	(14)
The Group's total amount under IFRS	**29 864**	**814 962**	**(312 245)**	**105 723**	**36 463**	**16 228**

30 Segment Analysis (Continued)

The differences shown above arise from classification variances as well as different accounting policies.

Adjustment of provisions is related to the difference between estimation methodology applied in statutory accounting records used as a basis for management reporting and estimation methodology according to IFRS.

Differences arising on securities' classification relate to gains/(losses) on revaluation of securities designated at fair value through profit or loss in IFRS reporting but classified as available for sale in statutory accounting records used as a basis for management reporting.

For the year ended 31 December 2010 the Group's revenues from customers in the Russian Federation amounted to RR 960 441 million (for the year ended 31 December 2009: RR 979 859 million). Revenues from customers in all foreign countries from which the Group derives revenues amounted to RR 20 954 million (for the year ended 31 December 2009: RR 7 703 million).

As at 31 December 2010 the carrying value of premises and equipment located in the Russian Federation amounted to RR 276 827 million (2009: RR 243 752 million). Carrying value of premises and equipment of the Group located in foreign countries amounted to RR 6 929 million (2009: RR 6 129 million).

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2010 or 2009.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of major types of risks: credit, market, liquidity and operational risks. Market risk includes interest rate risk, equity risk and currency risk. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor and manage the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

The Group's Management Board under authority delegated by the Shareholders Meeting sets the Group's general risk policy as well as specific policies for managing each type of major risk. The Bank's Assets and Liabilities Management Committee (ALMC) and Credit and Investment Committee (CIC) in Head Office set limits for operations that create risk exposure according to principles determined by risk policies of the Group and initiated by the departments responsible for risk monitoring and control. The risk-controlling departments operate separately from the business departments involved in developing operations with clients.

The Group performs stress-testing for all major types of risk at least once a year. Test results are reviewed and discussed by Group Management.

The Supervisory Board is informed about all main types of risk on a quarterly basis.

Credit Risk. The Group is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Group manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis. The credit risk management as a component of the general risk management system is aimed to maintain a sustainable development of the Group.The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32.

The Group's lending policies focus on the improvement of the credit quality and profitability of the loan portfolio, optimisation of its regional, product and industry structure as well as minimization and diversification of credit risks. To minimize exposure to credit risk at the branch level, the CIC at the Bank's Head Office sets limits on loan transactions for the Regional Head Offices. The Regional Head Offices then allocate these limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the CIC of the Bank's Head Office.

31 Financial Risk Management (Continued)

The Group defines the following stages of credit risks management:

- Identification of credit risks;
- Analysis and assessment of credit risks;
- Elaborating and carrying out measures for minimisation, decrease and prevention of the risk;
- Monitoring of the Group's credit risk level, control of compliance with the established procedures of risk assessment;
- Reporting to the Management on the Group's credit risk level;
- Monitoring and optimisation of procedures of risk identification and assessment, as well as methods of risk minimisation, restriction and control, taking into account assessment of the Group's performance.

The Group usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Group accepts guarantees from controlling shareholders, government entities, banks, other solvent legal entities, individuals. In order to reduce credit risk, several types of collateral may be used simultaneously. A guarantor is evaluated on the same basis as the borrower.

The Group assesses value of collateral on the basis of an internal expert evaluation performed by the Group's specialists, an independent appraiser's evaluation or on the basis of the discounted book value of the collateral. In accordance with the Group's policy the value of collateral or the amount of guarantee must cover the principal and interest on the loan for a period of three months.

The estimation of individual credit risk of corporate clients, individual entrepreneurs, banks, state bodies of the Russian Federation, insurance companies is made on the basis of internal credit ratings system, definition of classes of counterparties' creditworthiness, as well as on the basis of forecast cash flow models or other indicators.

The system of internal credit ratings classifies borrowers in certain categories of credit risk depending on assessment of external and internal factors of credit risk (groups of factors) and degree of their influence on the ability of the borrower to serve and repay the accepted obligations. To cover credit risks the Group structures its credit products which includes requirements for particular quality collateral, level of interest rates and control over sources of loan repayment. In the process of credit decision the Group uses the principle of independent review of credit risk by credit risk management division.

Exposure Limits. Principles of credit risk minimization are performed through a system of exposure limits, segregation of duties on setting up exposure limits and carrying out operations bearing credit risk. To manage its credit risk, the Group places its counterparties into risk groups, which reflect the probability of default on obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Group has procedures for calculation and review of risk limits for the following categories: corporate clients, subfederal and municipal bodies, domestic and foreign banks, individuals. Exposure limits are also set for foreign countries, single borrower and group of related borrowers and one-off banking operations bearing credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial position, expected financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of subfederal and municipal bodies is evaluated on the basis of their financial position and the level of region development. The financial position is evaluated on the basis of credit history, debt level, dependence on higher level budgets and budget quality compliance indicators. The level of development is evaluated on the basis of dynamics of gross regional product, quality of tax proceeds' sources and other indicators of social and economic development level. Exposure limits are calculated on the basis of subfederal and municipal bodies' budgets taking into account legal basis for borrowing.

31 Financial Risk Management (Continued)

Exposure limits for counterparty banks are set on the basis of their financial position, ranking among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Group.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client. In addition, while calculating amount of a loan to be provided to an individual, his/her family income is also taken into account as well as additional income and other social-demographic data.

In 2010 the Bank launched the new lending technology for individuals – Credit Factory which covers three loan goups - consumer loans, car loans and credit cards. Such technology provides an overall analysis of information about participants of a deal taken from different sources, centralization of analytical and decision taking functions as well as high automatisation of loan application process.

Risk Concentration. In order to minimize and diversify its credit risk, the Group monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are more strict than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees granted to related parties. Concentration and exposure limits for large credit operations and groups of related borrowers as well as high-risk credit operations are approved by the Bank's Head Office.

Monitoring. The Group constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and interim financial information. Exposure limits for subfederal and municipal bodies are reviewed twice a year on the basis of analysis of the budgets execution and depend on the amount and structure of a loan. For resident banks exposure limits are reviewed on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis, if required.

The Group monitors actual losses and expected losses on operations exposed to credit risk and their compensation by the provision for impairment. The Group controls credit risk level of counterparties by monitoring of their financial position, their assessment of solvency throughout life of the limit and/or other covenants of credit product.

To monitor exposure to credit risk credit departments compile regular reports based on a structured analysis of the client's business and financial results. All information about the existing exposures on customers with deteriorating creditworthiness is reported to the Management for further consideration. The Group uses formalized internal credit ratings for monitoring credit risk. Management of the Group carry out follow-up control of past due balances.

Credit risk for financial instruments not recognised in the statement of financial position is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for financial instruments recognised in the statement of financial position through established credit approvals, risk control limits and monitoring procedures.

Market Risk. Market risk is the possibility of the Group's financial losses as a result of unfavorable movements in exchange rates, equity prices, interest rates, precious metal prices. The Group manages its market risk in accordance with the Policy of the Bank on Market Risk Management. The main goal of Market Risk Management is to optimize risk/return ratio, minimize loss given unfavorable developments and to reduce the deviation of actual financial result from the expected result.

31 Financial Risk Management (Continued)

The Group categorises market risk into:

- interest rate risk,
- equity risk and
- currency risk.

The Group manages its market risks through securities portfolios management and control over positions in currencies, interest rates and derivatives. For this purpose the ALMC sets limits on securities portfolios, open positions, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The ALMC develops market risk management methodologies and sets limits on particular operations for the Bank's Head Office and Regional Head Offices. The Regional Head Offices have their own assets and liabilities management committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by ALMC of the Bank's Head Office. If necessary, the Regional Head Offices develop their own methodologies based on the methodology of the Head Office. Subsidiary banks and companies manage market risks individually based on the principles set by the Head Office.

Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing as well as regulatory requirements of the Bank of Russia.

The Group makes market risk assessment both by components and in aggregate, determining the diversification effect.

Market risks are controlled by monitoring of operations on foreign exchange and securities market performed by trading division of the Treasury Operations and Financial Markets Department (hereafter the Treasury) of the Bank. Monitoring of market risks is performed by departments independent of trading division and implies continual control over trading deals.

Interest Rate Risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on the value of debt securities and cash flows.

The Group defines two types of interest rate risk:

1. Interest rate risk on debt securities at fair value through profit or loss or other comprehensive income.

The Group is exposed to interest rate risk of its investments in debt securities portfolio, when changing interest rates impact the fair value of bonds. Trading operations with bonds are performed only by the Bank's Head Office.

For managing and limiting interest rate risk across the debt securities portfolio, the ALMC guided by the market risk policy sets the following limits and controls: aggregate limits for bond categories and currencies; limits on investing in one issue of the issuer, loss limits on trading operations, limits on the maturities structure of investments in bonds, minimum return of investments, limits on repo and reverse repo agreements.

This type of interest rate risk is assessed using Value-at-Risk (hereinafter - VaR) methodology described below.

The Group also assesses interest rate risk by bonds type: aggregate for the securities at fair value through profit or loss and for the securities available for sale.

31 Financial Risk Management (Continued)

2. Interest rate risk resulting from maturities mismatch (interest rates repricing) across assets and liabilities that are interest rate sensitive (interest rate risk of non-trading positions).

The Group accepts risk of market interest rate fluctuations effect on cash flows. Interest rate risk of non-trading positions is a result of unfavourable interest rate movement and includes:

- the risk of a parallel shift, change in the slope and shape of the yield curve resulting from the maturities (repricing) mismatch of assets and liabilities sensitive to interest rate changes;
- basis risk, which results from a mismatch in the degree of interest rate sensitivity, of assets and liabilities with similar maturity (repricing term); and
- risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

Increasing interest rates can drive the cost of borrowed funds up faster and at a higher growth rate than return on investments, thus worsening financial results and interest rate margin, whereas decreasing interest rates can decrease return on working assets faster than the cost of borrowed funds.

The objective of managing this type of market risk is to reduce the impact of market interest rates on net interest income. To manage interest rate risk the ALMC sets maximum interest rates on corporate deposits/ current accounts and minimum rates on corporate loans, minimum rate of return on investments into securities and limits on investments into long-term assets bearing inherently the maximum interest rate risk. The Group's Management Board approves fixed interest rates on deposits from individuals and individual loans for the Bank's Head Office and Regional Head Offices, which require preliminary approval from the ALMC. As a rule interest rates on retail loans and deposits depend on loan and deposit maturity date, amount and the client's category.

ALMC of each regional bank approves interest rates for corporate clients taking into account the regional market situation and the efficiency of the regional bank's transactions on the assets and liabilities side as well as the limits on interest rates set by the ALMC of the Bank's Head Office for corporate funds and placements.

This type of interest rate risk is assessed using the scenario analysis. Forecasting of possible changes in interest rates is carried out separately for Russian Rouble positions and positions in foreign currency. The indicative rate for 3 month-term loans at the Moscow interbank market (MOSPRIME 3M) is used as the base rate for an estimation of rates volatility on rouble positions and LIBOR 3M and EURIBOR 3M – for positions in foreign currency.

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2010:

Change in profit before tax as at 31 December 2010 *(in millions of Russian Roubles)*	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 173 bps	4 943	-	4 943
Increase in interest rates by 311 bps	(8 887)	-	(8 887)
Decrease in interest rates by 25 bps	-	299	299
Increase in interest rates by 55 bps	-	(672)	(672)

31 Financial Risk Management (Continued)

The table below shows the impact of bps interest rates increase and decrease on profit before tax as at 31 December 2009:

Change in profit before tax as at 31 December 2009 *(in millions of Russian Roubles)*	**RR positions**	**Foreign currency position**	**Total**
Decrease in interest rates by 330 bps	(2 956)	-	(2 956)
Increase in interest rates by 410 bps	3 673	-	3 673
Decrease in interest rates by 20 bps	-	580	580
Increase in interest rates by 30 bps	-	(870)	(870)

The sensitivity analysis above shows changes in profit before tax given a parallel shift of the yield curve across all interest rate sensitive positions, i.e. when interest rates move by the same value for all maturities. In addition, interest rate risk is assessed considering the following simplifications: the calculation disregards possible early repayment or call of instruments.

Equity Price Risk. The Group is exposed to equity price risk through investments in corporate shares that may lose value when their market quotations change. In order to limit equity price risk the ALMC shortlists the issuers eligible for investing (this list includes exclusively “blue chips”), sets limits for the aggregate investments in equities, limits on investment into a single issuer, stop-loss limits for the aggregate trading portfolio. The regional offices do not perform trading operations with shares.

Equity price risk analysis is based of the VaR methodology described below.

Currency Risk. Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign exchange risk on open positions (mainly US dollar/RUB and EUR/RUB exchange rate fluctuations).

As part of managing foreign exchange risk the Group sets sublimits for open foreign exchange positions for Regional Head Offices. Besides, limits and control system are in place for Treasury arbitrage operations which sets open position limits for foreign currencies, limits on operations on the international and domestic markets, and stop-loss limits.

The Bank’s Treasury undertakes daily aggregation of the currency position of the Group and takes measures for maintaining of the Group’s currency risk exposure at a minimum level. The Group uses swaps, forwards and USD futures contracts tradable on MICEX as the main instruments for risk management.

31 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency and precious metals derivatives as at 31 December 2010. Foreign exchange risk on forward and future contracts is represented by their notional positions. Foreign exchange options are disclosed in the amount that reflects theoretical sensitivity of their fair value to reasonable change in exchange rates.

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	519 447	111 079	41 781	47 294	719 601
Mandatory cash balances with the Bank of Russia	50 532	-	-	-	50 532
Debt trading securities	52 516	9 354	1 510	17	63 397
Debt securities designated at fair value through profit or loss	78 738	-	4 233	-	82 971
Due from other banks	2 086	8 452	2 484	13	13 035
Loans and advances to customers	4 322 771	954 172	123 606	88 838	5 489 387
Debt securities pledged under repurchase agreements	15	72 646	-	556	73 217
Debt investment securities available for sale	1 020 150	55 075	38 179	17 165	1 130 569
Debt investment securities held to maturity	352 996	4 478	298	419	358 191
Other financial assets (less fair value of derivatives)	98 217	7 449	1 288	371	107 325
Total monetary assets	**6 497 468**	**1 222 705**	**213 379**	**154 673**	**8 088 225**
Liabilities					
Due to other banks	63 932	118 574	2 053	3 872	188 431
Due to individuals	4 214 842	262 845	267 768	89 004	4 834 459
Due to corporate customers	1 265 948	407 369	88 167	55 188	1 816 672
Debt securities in issue	110 350	1 352	2 236	5 488	119 426
Other borrowed funds	-	250 395	7 332	13 038	270 765
Other financial liabilities (less fair value of derivatives)	44 018	1 752	720	1 131	47 621
Subordinated debt	303 299	214	-	-	303 513
Total monetary liabilities	**6 002 389**	**1 042 501**	**368 276**	**167 721**	**7 580 887**
Net monetary assets/(liabilities)	**495 079**	**180 204**	**(154 897)**	**(13 048)**	**507 338**
Foreign exchange derivatives	**63 914**	**(215 079)**	**128 121**	**13 573**	**(9 471)**
Credit related commitments (Note 32)	**621 754**	**561 599**	**107 667**	**35 122**	**1 326 142**

31 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign exchange risk in respect of monetary assets, liabilities and notional positions on currency and precious metals derivatives as at 31 December 2009:

In millions of Russian Roubles	Russian Roubles	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	585 295	63 753	50 270	26 203	725 521
Mandatory cash balances with the Bank of Russia	40 572	-	-	-	40 572
Debt trading securities	61 716	26 357	1 074	-	89 147
Debt securities designated at fair value through profit or loss	100 640	-	4 644	-	105 284
Due from other banks	7 014	125	-	3 080	10 219
Loans and advances to customers	4 021 182	695 047	111 750	36 052	4 864 031
Securities pledged under repurchase agreements	-	583	-	-	583
Debt investment securities available for sale	662 264	113 643	42 074	10 188	828 169
Other financial assets (less fair value of derivatives)	55 496	4 395	1 306	359	61 556
Total monetary assets	**5 534 179**	**903 903**	**211 118**	**75 882**	**6 725 082**
Liabilities					
Due to other banks	40 601	6 151	2 080	5 115	53 947
Due to individuals	3 152 717	253 309	318 294	62 992	3 787 312
Due to corporate customers	1 137 729	335 422	139 555	38 853	1 651 559
Debt securities in issue	117 408	3 131	2 733	1 327	124 599
Other borrowed funds	-	108 686	6 522	5	115 213
Other financial liabilities (less fair value of derivatives)	21 956	250	198	125	22 529
Subordinated debt	504 346	14 715	-	-	519 061
Total monetary liabilities	**4 974 757**	**721 664**	**469 382**	**108 417**	**6 274 220**
Net monetary assets/(liabilities)	**559 422**	**182 239**	**(258 264)**	**(32 535)**	**450 862**
Foreign exchange derivatives	**34 289**	**(302 897)**	**242 940**	**16 203**	**(9 465)**
Credit related commitments (Note 32)	**430 229**	**383 716**	**117 288**	**25 409**	**956 642**

The Group provides loans and advances to customers in foreign currency. Fluctuations of foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss.

31 Financial Risk Management (Continued)

The Group's analysis of currency risk is based on the VaR methodology described below.

Value-at-Risk, VaR. The VaR methodology is one of the main instruments of assessing market risk of the Group. VaR allows to estimate the maximum financial loss with a defined confidence level of probability and time horizon. The Group calculates VaR using the historical modeling methodology. This method allows to evaluate probability scenarios of future price fluctuations on the basis of past changes taking into account market indicators correlations (e.g. interest rates and foreign exchange rates).

VaR is calculated using the following assumptions:

- historical data on changes in financial market indicators comprise 500 trading days preceding the reporting date;
- the market indicators used include currency exchange rates, bond, equity and precious metal prices;
- movements in financial market indicators are calculated over a 10-day period, i.e. an average period when the Group is able to close or hedge its positions exposed to market risk; and
- a 99% one-way confidence level is used, which means that losses in the amount exceeding VaR are expected by the Group maximum once every 100 trading days or not more than 5 times within 2 years.

For evaluating the adequacy of the applied VaR calculation model the Group regularly back-tests the model by comparing the modeled losses with actual losses.

Despite the fact that VaR allows to measure risk, its shortcomings must be taken into account such as:

- past price fluctuations are not sufficient to assess accurately future price fluctuations;
- calculation of financial market price indicators over a 10-day period is based on the assumption that the Group will be able to close (or hedge) all positions within this period. This assessment may be far from accurate in measuring risk exposure at the time of reduced market liquidity, when the period of closing (or hedging) the Group's positions may increase;
- using 99% one-way confidence level of probability does not provide for estimating losses with a probability below 1%; and
- VaR is calculated based on end-of-day position and misses the intra-day risks accepted by the Group.

Taking into account the shortcomings of the VaR methodology the Group applies scenario analysis and stress-testing to have a better understanding of market risk exposure.

To measure interest rate risk for non-trading positions, the Group applies scenario analysis rather than the VaR methodology.

31 Financial Risk Management (Continued)

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2010:

In millions of Russian Roubles	**Value as at 31 December 2010**	**Average value for 2010**	**Maximum value for 2010**	**Minimum value for 2010**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	40 074	48 428	56 852	33 768	3.23%	23.0%
Equity price risk	9 439	13 165	20 675	5 252	0.76%	5.4%
Currency risk	1 910	2 431	3 064	1 359	0.15%	1.1%
Market risk including diversification effect	46 621	56 140	67 639	38 572	3.75%	26.8%
Diversification effect	4 802	7 884	17 832	3 146	0.39%	2.8%

The table below shows the interest rate, equity and currency risk calculation using the VaR methodology as at 31 December 2009:

In millions of Russian Roubles	**Value as at 31 December 2009**	**Average value for 2009**	**Maximum value for 2009**	**Minimum value for 2009**	**Impact on equity**	**Impact on profit**
Interest rate risk on debt securities	45 589	29 200	49 851	19 566	3.75%	137.0%
Equity price risk	5 507	4 492	5 775	2 679	0.42%	15.2%
Currency risk	1 560	1 437	2 414	37	0.12%	4.3%
Market risk including diversification effect	52 845	31 158	53 393	20 223	3.99%	146.0%
Diversification effect	3 811	3 972	11 526	1 243	0.29%	10.5%

Data in the tables above are calculated on the basis of the Bank's internal management accounting system which is based on the statutory accounting reports of the Bank.

Liquidity Risk. Liquidity risk is defined as the risk of mismatch between the maturities of assets and liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, customer's current accounts, term deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of the above mentioned needs, as according to historical data a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the ALMC.

The Group liquidity risk management is aimed at ensuring timely and complete fulfillment of its payment obligations at minimum cost. For this purpose the Group:

- maintains a stable and diversified liabilities structure including both term resources and funds on demand,
- reserves capacity for immediate borrowing of funds on financial markets, and
- invests in highly liquid assets diversified by currencies and maturities for quick and effective coverage of unexpected gaps in liquidity.

31 Financial Risk Management (Continued)

Policy and Procedures. The Treasury of the Bank together with the Finance department perform analysis and forecasts, and advise Management on regulation of current and short-term liquidity of the Group. Analysis, forecasts and proposals on regulation of medium-term and long-term liquidity are produced by the Finance department of the Bank. Liquidity position and execution of requirements on managing the liquidity risk are controlled by the ALMC of the Bank. Liquidity risk is assessed, managed and controlled on the basis of "Policies of the Bank for Management and Control of Liquidity" and the guidelines of the Bank of Russia and the Basel Committee for Banking Supervision.

Provisions of this Policy lay down the guidelines for organizing the liquidity management in the Regional Head Offices of the Bank. The Management Board of the Bank's Regional Head Office is responsible for efficiently managing and controlling the Regional Head Office liquidity. It is also responsible for monitoring limits and controls required by the Group's internal regulations. Guided by the limits, controls, requirements and policies, the Regional Head Office selects evaluation methods and the necessary level of liquidity and develops and implements measures to ensure liquidity. In case of an insufficient liquidity the Treasury provides funds to the Regional Head Office (according to an established procedure) in the required amount.

Liquidity risk management includes the following procedures:

- forecasting payment flows by major currencies to ensure the necessary volume of liquid assets to cover liquidity deficit;
- forecasting assets and liabilities structure based on scenario analysis to control the required volume of liquid assets in medium-term and long-term perspective;
- forecasting and monitoring liquidity ratios compliance with regulatory and internal policy requirements;
- control over liquidity reserves of the Group to assess maximum opportunities for the Group to attract funds from various sources in different currencies;
- diversification of funding sources in different currencies taking into account maximum amounts, cost of funding and maturity; and
- stress-testing and planning actions for restoring the required liquidity level in unfavorable conditions or during crisis periods.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

31 Financial Risk Management (Continued)

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2010 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	69 865	57 329	60 927	787	2 648	191 556
Due to individuals	1 157 004	1 302 046	891 456	1 475 067	256 027	5 081 600
Due to corporate customers	1 442 153	124 428	92 195	173 099	2 003	1 833 878
Debt securities in issue	35 994	50 175	36 200	3 251	3 691	129 311
Other borrowed funds	1 771	4 885	66 624	108 214	116 639	298 133
Other liabilities (including derivative financial instruments)	44 069	5 785	302	1 329	253	51 738
Subordinated debt	2	8	19 509	39 223	420 392	479 134
Total liabilities	**2 750 858**	**1 544 656**	**1 167 213**	**1 800 970**	**801 653**	**8 065 350**
Credit related commitments	1 326 142	-	-	-	-	1 326 142

The analysis of undiscounted cash flows on the Group's liabilities by remaining contractual maturity at 31 December 2009 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
Liabilities						
Due to other banks	49 619	628	2 342	370	1 997	54 956
Due to individuals	794 755	834 616	1 092 847	1 130 781	178 910	4 031 909
Due to corporate customers	1 255 098	238 998	77 489	92 868	83	1 664 536
Debt securities in issue	35 905	45 711	43 731	7 067	9	132 423
Other borrowed funds	571	2 512	3 642	89 048	29 685	125 458
Other liabilities (including derivative financial instruments)	19 439	10 659	1 234	1 520	306	33 158
Subordinated debt	-	442	24 442	81 780	812 738	919 402
Total liabilities	**2 155 387**	**1 133 566**	**1 245 727**	**1 403 434**	**1 023 728**	**6 961 842**
Credit related commitments	956 642	-	-	-	-	956 642

31 Financial Risk Management (Continued)

The above analysis is based on undiscounted cash flows on liabilities of the Group taking into account all future payments (including future payments of interest throughout life of the relevant liability). The liabilities were included in the time intervals according to the earliest possible repayment date. For example:

- Demand liabilities (including demand deposits) are included in the earliest time interval; and
- Guarantees issued are included in the earliest period when they may be called.

However, in accordance with the Civil Code of the Russian Federation individuals have the right to withdraw their deposits from any accounts (including time deposits) prior to maturity if they forfeit their right to accrued interest. The Group utilises a wide range of market instruments to maintain its liquidity on the level sufficient for timely execution of the current and forecasted financial obligations including the disposal of liquid assets or funding in domestic and international markets.

The derivative contracts entered into by the Group may be deliverable or settled on net basis. If the derivatives are closed by delivery of underlying asset, inflow and outflow of funds occur simultaneously.

The table below shows assets and liabilities at 31 December 2010 by their remaining expected maturity. Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of CBR initiatives and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "on demand and less than 30 days"
- Trading securities, securities designated at fair value through profit or loss, securities pledged under repurchase agreements and highly liquid portion of investment securities available for sale are considered to be liquid assets as these securities could be easily converted into cash within short period of time. Such financial instruments are disclosed in gap analysis table as "on demand and less than 30 days"
- Investment securities available for sale which are less liquid are disclosed according to remaining contractual maturities (for debt instruments) or as "no stated maturity" (for equities)
- Investment securities held to maturity are classified based on the remaining maturities
- Loans and advances to customers, amounts due from other banks, other assets, debt securities in issue, amounts due to other banks, other borrowed funds and other liabilities are included into gap analysis table based on remaining contractual maturities
- Customer deposits diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the "permanent" part of current account balances.

31 Financial Risk Management (Continued)

The liquidity position of the Group's assets and liabilities as at 31 December 2010 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	719 601	-	-	-	-	-	719 601
Mandatory cash balances with the Bank of Russia	10 880	8 987	6 089	20 949	3 627	-	50 532
Trading securities	66 168	-	-	-	-	-	66 168
Securities designated at fair value through profit or loss	106 875	-	-	-	-	-	106 875
Due from other banks	150	9 998	2 111	345	431	-	13 035
Loans and advances to customers	186 302	745 278	998 398	1 960 855	1 598 554	-	5 489 387
Securities pledged under repurchase agreements	81 493	-	-	-	-	-	81 493
Investment securities available for sale	1 183 231	1 460	2 404	13 748	7 543	2 535	1 210 921
Investment securities held to maturity	-	13 069	5 541	177 661	161 920	-	358 191
Deferred income tax asset	-	-	-	-	-	7 518	7 518
Premises and equipment	-	-	-	-	-	283 756	283 756
Other assets	122 498	14 745	20 080	8 733	21 395	53 599	241 050
Total assets	**2 477 198**	**793 537**	**1 034 623**	**2 182 291**	**1 793 470**	**347 408**	**8 628 527**
Liabilities							
Due to other banks	68 222	57 730	59 116	1 555	1 808	-	188 431
Due to individuals	1 040 936	859 810	582 571	2 004 184	346 958	-	4 834 459
Due to corporate customers	861 805	34 828	18 788	897 122	4 129	-	1 816 672
Debt securities in issue	34 706	44 831	33 077	4 572	2 240	-	119 426
Other borrowed funds	83	2 060	63 446	99 414	105 762	-	270 765
Deferred income tax liability	-	-	-	-	-	15 921	15 921
Other liabilities	45 165	23 870	10 513	4 179	492	7 954	92 173
Subordinated debt	-	-	-	214	303 299	-	303 513
Total liabilities	**2 050 917**	**1 023 129**	**767 511**	**3 011 240**	**764 688**	**23 875**	**7 641 360**
Net liquidity surplus/(gap)	**426 281**	**(229 592)**	**267 112**	**(828 949)**	**1 028 782**	**323 533**	**987 167**
Cumulative liquidity surplus/(gap) at 31 December 2010	**426 281**	**196 689**	**463 801**	**(365 148)**	**663 634**	**987 167**	**-**

31 Financial Risk Management (Continued)

The liquidity position of the Group's assets and liabilities as at 31 December 2009 is set out below:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	725 521	-	-	-	-	-	725 521
Mandatory cash balances with the Bank of Russia	10 669	4 175	5 343	17 977	2 408	-	40 572
Trading securities	91 022	-	-	-	-	-	91 022
Securities designated at fair value through profit or loss	124 439	-	-	-	-	-	124 439
Due from other banks	4 065	3 706	68	1 693	687	-	10 219
Loans and advances to customers	205 924	730 974	968 615	1 539 964	1 418 554	-	4 864 031
Securities pledged under repurchase agreements	2 699	-	-	-	-	-	2 699
Investment securities available for sale	835 937	-	-	64	-	9 974	845 975
Premises and equipment	-	-	-	-	-	249 881	249 881
Other assets	72 525	8 949	2 912	1 167	21 289	43 865	150 707
Total assets	**2 072 801**	**747 804**	**976 938**	**1 560 865**	**1 442 938**	**303 720**	**7 105 066**
Liabilities							
Due to other banks	49 570	574	2 177	281	1 345	-	53 947
Due to individuals	356 084	513 251	697 007	1 901 545	319 425	-	3 787 312
Due to corporate customers	1 088 570	52 884	19 588	490 270	247	-	1 651 559
Debt securities in issue	35 603	43 841	38 910	6 245	-	-	124 599
Other borrowed funds	88	395	1 308	83 762	29 660	-	115 213
Deferred income tax liability	-	-	-	-	-	4 598	4 598
Other liabilities	32 060	9 414	7 067	1 392	2 215	17 693	69 841
Subordinated debt	-	14 504	-	-	504 557	-	519 061
Total liabilities	**1 561 975**	**634 863**	**766 057**	**2 483 495**	**857 449**	**22 291**	**6 326 130**
Net liquidity surplus/(gap)	**510 826**	**112 941**	**210 881**	**(922 630)**	**585 489**	**281 429**	**778 936**
Cumulative liquidity surplus/ (gap) at 31 December 2009	**510 826**	**623 767**	**834 648**	**(87 982)**	**497 507**	**778 936**	**-**

The Management believes that matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain maturity with deviation from contract terms being observed. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Operational Risk. Operational risk is a possibility of a loss from deficiencies in operational management, technologies and information systems in use, unauthorised actions or errors of the staff, or by external events.

The Group considers management of operational risk as part of its overall risk management system. To manage operational risk the Group uses appropriate Policies for prevention and/or minimisation of operational risk.

31 Financial Risk Management (Continued)

The Group's Policies for Operational Risk Management include segregation of duties, overall reglamentation of business processes and internal procedures, control over credit limit discipline, rules and procedures for deals and transactions execution; action plan for information security, continuity and recovery in case of emergency and ongoing professional development of staff across the Group's hierarchy.

Management of operational risk depends on the volume of transactions, multi-branch operational structure and diversity of information systems in place.

The Group monitors operational risk data, collects, analyses and systematises the loss data and monitors losses caused by processes and operations exposed to operational risk.

32 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations and changes, which could occur frequently, at short notice and have retroactive effect. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. It is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review and investigations by the authorities in respect of taxes for three calendar years preceding the year in which the decision to conduct the review is taken. Under certain circumstances tax reviews may cover longer periods.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20 percent. Under current transfer pricing legislation "controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterised by significant price fluctuations (i.e., if the price applied under these transactions differs from prices applied under similar transactions by more than 20 percent within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law introducing a wholesale reform to the transfer pricing legislation was approved by the Russian Parliament in the first reading on 19 February 2010 with the second and third readings initially expected in December 2010 but then postponed until 2011. At this point it cannot be predicted with the absolute certainty when these amendments will be enacted, if at all, what will be their exact content and what effect they may have on taxpayers, including the Group.

Capital expenditure commitments. At 31 December 2010 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 12 546 million (2009: RR 7 394 million) and in respect of computer equipment acquisition of RR 406 million (2009: RR 635 million). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

32 Contingencies and Commitments (Continued)

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under operating leases, both cancellable and non-cancellable, are as follows:

In millions of Russian Roubles	2010 Lease payments under cancellable operating lease	2010 Lease payments under non-cancellable operating lease	2009 Lease payments under cancellable operating lease	2009 Lease payments under non-cancellable operating lease
Not later than 1 year	6 413	1 069	4 261	785
Later than 1 year and not later than 5 years	10 527	3 327	7 943	1 242
Later than 5 years	6 626	1 689	6 784	982
Total operating lease commitments	**23 566**	**6 085**	**18 988**	**3 009**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. The Group is in compliance with covenants as at 31 December 2010 and as at 31 December 2009.

Credit related commitments. The primary purpose of credit related commitments instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet the obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct lending. Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the maturities of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Russian Roubles	2010	2009
Commitments to extend credit	488 029	328 013
Export letters of credit	353 366	264 196
Undrawn credit lines	182 220	108 448
Guarantees issued	159 158	137 522
Import letters of credit and letters of credit for domestic settlements	143 369	118 463
Total credit related commitments	**1 326 142**	**956 642**

At 31 December 2010 included in Due to corporate customers are deposits of RR 78 749 million (31 December 2009: RR 82 068 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 17.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash payments, as these financial instruments may expire or terminate without any payments being made.

32 Contingencies and Commitments (Continued)

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2010 Nominal value	2009 Nominal value
State savings bonds and OFZ bonds	315 649	269 324
Corporate shares	196 605	179 261
Bonds of the Bank of Russia	31 197	-
Promissory notes	17 930	23 119
Corporate bonds	8 281	3 586
Eurobonds of the Russian Federation	1 406	796
Debt securities of municipal and subfederal bodies of the Russian Federation	636	620
State domestic loan bonds (OVGVZ)	31	31
Other securities	205	468

Assets under management. In December 2010 the Group incorporated three mutual investment funds under the management of Sberbank Asset Management Company, a member of the Group. The company was established in June 2010 to provide professional asset management services to a broad client base.

As at 31 December 2010 the value of net assets of each mutual investment fund was as follows:

In millions of Russian Roubles	Value of net assets
Mutual investment fund ‘Sberbank – shares fund’	73
Mutual investment fund ‘Sberbank – ‘balanced fund’	49
Mutual investment fund ‘Sberbank – ‘bonds fund’	18
Total	**140**

Assets pledged and restricted. As at 31 December 2010 the Group has pledged federal loan bonds (OFZ bonds) and Eurobonds of the Russian Federation on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. The carrying value of assets pledged is as follows:

In millions of Russian Roubles	Notes	2010	2009
Trading securities	8		
- Federal loan bonds (OFZ bonds)		14 715	18 105
- Russian Federation Eurobonds		-	6 348
Securities designated at fair value through profit or loss	9		
- Federal loan bonds (OFZ bonds)		31 520	39 658
Investment securities available for sale	12		
- Federal loan bonds (OFZ bonds)		42 498	65 299
- Russian Federation Eurobonds		5	13 768
Investment securities held to maturity	13		
- Federal loan bonds (OFZ bonds)		37 044	-
Total		**125 782**	**136 830**

32 Contingencies and Commitments (Continued)

Mandatory cash balances with the Bank of Russia in the amount of RR 50 532 million (2009: RR 40 572 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

The Group also had assets pledged as collateral under repurchase agreements with other banks and corporate customers with the following carrying value:

		2010		2009	
In millions of Russian Roubles	Notes	Asset pledged	Related liability	Asset pledged	Related liability
Securities pledged under repurchase agreements	11	81 493	67 323	2 699	2 285
Total		**81 493**	**67 323**	**2 699**	**2 285**

Refer to Note 11 for more detailed information on securities pledged under repurchase agreements.

33 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. Fair value of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value of forward contracts is calculated as present value of amounts receivable less present value of amounts payable. The inputs in the discounted cash flows model used are forward exchange rate quotations and quoted implied depo rates. Such instruments are classified as level 2 of fair value hierarchy. Refer to Note 34.

Fair value of option contracts is calculated using the Black-Scholes model. Adjustments for credit risk are made where appropriate. The main inputs of this model are current market price and implied volatility. Where these inputs could be observed on the open market, the carrying amounts are disclosed as level 2 of fair value hierarchy. Otherwise, the amounts are disclosed as level 3. Refer to Note 34.

33 Derivative Financial Instruments (Continued)

The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

	Domestic counterparties				Foreign counterparties			
As at 31 December 2010: *(in millions of Russian Roubles)*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Assets Positive fair value**	**Liabilities Negative fair value**
Forwards								
Currency								
- purchase EUR/sale CHF	-	-	-	-	2 040	(2 461)	-	(421)
- purchase EUR/sale RUR	286	(283)	3	-	-	-	-	-
- purchase EUR/sale USD	194	(197)	-	(3)	146 888	(145 614)	1 613	(339)
- purchase RUR/sale USD	9 952	(9 872)	96	(16)	95 008	(94 062)	1 119	(173)
- purchase USD/sale RUR	14 932	(15 061)	20	(149)	24 740	(25 065)	10	(335)
- purchase USD/sale BYR	-	-	-	-	2 867	(2 862)	59	(54)
- purchase UAH/sale USD	-	-	-	-	1 723	(1 725)	-	(2)
- purchase USD/sale UAH	-	-	-	-	305	(305)	-	-
- purchase BYR/sale USD	-	-	-	-	124	(122)	2	-
Precious metals								
- purchase precious metals/sale RUR	255	(253)	2	-	-	-	-	-
- purchase precious metals/sale USD	-	-	-	-	19 173	(18 361)	814	(2)
- purchase USD/sale precious metals	-	-	-	-	1 584	(1 575)	9	-

33 Derivative Financial Instruments (Continued)

As at 31 December 2010: *(in millions of Russian Roubles)*	Domestic counterparties: Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value	Foreign counterparties: Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value
Options purchased								
Currency								
- purchase EUR / sale RUR	242	(250)	5	-	403	(415)	3	-
- purchase RUR / sale EUR	-	-	-	-	415	(403)	10	-
- purchase RUR / sale USD	-	-	-	-	534	(518)	16	-
- purchase USD / sale RUR	152	(158)	2	-	1 432	(1 534)	6	-
Equity								
- purchase shares / sale RUR	-	-	-	-	1 277	(2 323)	81	-
- purchase shares / sale USD	-	-	-	-	1 048	(660)	400	-
- purchase RUR / sale shares	7 227	(4 265)	3 377	-	-	-	-	-
- purchase USD / sale shares	10 179	(6 430)	1 596	-	-	-	-	-
Options sold								
Currency								
- purchase EUR / sale RUR	-	-	-	-	403	(432)	-	(2)
- purchase RUR / sale EUR	-	-	-	-	402	(403)	-	(4)
- purchase RUR/sale USD	-	-	-	-	1 966	(1 981)	-	(24)
- purchase USD/sale RUR	9	(9)	-	(15)	1 067	(1 115)	-	(6)
Interest rate swaps								
- receive fixed rate / pay floating rate	494	(480)	14	-	27	(28)	-	(1)
- receive floating rate / pay fixed rate	-	-	-	-	432	(439)	-	(7)
Total	**43 922**	**(37 258)**	**5 115**	**(183)**	**303 858**	**(302 403)**	**4 142**	**(1 370)**

33 Derivative Financial Instruments (Continued)

As at 31 December 2009: *(in millions of Russian Roubles)*	Domestic counterparties				Foreign counterparties			
	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Assets Positive fair value	Liabilities Negative fair value
Forwards								
Foreign currency								
- purchase EUR/sale CHF	-	-	-	-	2 126	(2 198)	-	(72)
- purchase EUR/sale RUR	217	(217)	-	-	-	-	-	-
- purchase EUR/sale USD	-	-	-	-	242 352	(251 734)	79	(9 461)
- purchase JPY/sale USD	-	-	-	-	63	(64)	-	(1)
- purchase RUR/sale EUR	237	(237)	-	-	-	-	-	-
- purchase RUR/sale USD	7 384	(7 484)	-	(100)	32 317	(32 441)	265	(389)
- purchase USD/sale EUR	-	-	-	-	1 410	(1 406)	4	-
- purchase USD/sale RUR	1 849	(1 837)	39	(27)	3 637	(3 507)	131	-
- purchase EUR/sale BYR	-	-	-	-	1 615	(1 241)	375	-
- purchase USD/sale BYR	-	-	-	-	1 600	(1 572)	29	-
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	18 272	(18 609)	-	(337)
- purchase USD/sale precious metals	-	-	-	-	335	(337)	-	(2)
Options purchased								
Foreign currency								
- purchase USD/sale RUR	-	-	-	-	302	(311)	15	-
Equity								
- purchase shares/ sale RUR	-	-	-	-	818	(2 323)	97	-
- purchase shares/ sale USD	-	-	-	-	1 474	(3 115)	691	-
- purchase USD/sale shares	-	-	-	-	5 824	(381)	2 240	-
Options sold								
Foreign currency								
- purchase RUR/sale USD	-	-	-	-	2 430	(2 420)	-	(200)
- purchase RUR/sale EUR	70	65	-	-	-	-	-	-
Total	**9 757**	**(9 710)**	**39**	**(127)**	**314 575**	**(321 659)**	**3 926**	**(10 462)**

During the year the Group has incurred a net loss on foreign currency derivatives in the amount of RR 9 175 million (2009: a net loss of RR 12 135 million) and earned net gain on precious metals derivatives in the amount of RR 679 million (2009: a net gain of RR 1 082 million), which is recorded in the Group's consolidated income statement within net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains, and net gains/(losses) arising from operations with precious metals and precious metals derivatives correspondingly.

34 Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	65 704	464	-	66 168
Securities designated at fair value through profit or loss	81 486	21 945	3 444	106 875
Securities pledged under repurchase agreements	81 493	-	-	81 493
Investment securities available for sale	1 193 158	5 866	11 897	1 210 921
Derivative financial instruments	-	4 285	4 972	9 257
Total financial assets at fair value	**1 421 841**	**32 560**	**20 313**	**1 474 714**
Financial liabilities				
Derivative financial instruments	-	1 553	-	1 553
Total financial liabilities at fair value	**-**	**1 553**	**-**	**1 553**

At 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	90 507	515	-	91 022
Securities designated at fair value through profit or loss	103 673	4 776	15 990	124 439
Securities pledged under repurchase agreements	2 699	-	-	2 699
Investment securities available for sale	833 084	2 982	9 909	845 975
Derivative financial instruments	-	3 965	-	3 965
Total financial assets at fair value	**1 029 963**	**12 238**	**25 899**	**1 068 100**
Financial liabilities				
Derivative financial instruments	-	10 589	-	10 589
Total financial liabilities at fair value	**-**	**10 589**	**-**	**10 589**

34 Fair Value of Financial Instruments (Continued)

Level 2 includes debt securities of first-class borrowers that are not actively traded on the market. Fair value of the securities was calculated using techniques for which all inputs which have a significant effect on the recorded fair value are observable. Financial characteristics of comparable financial instruments actively traded on the market were used as inputs for the fair valuation models.

Corporate bonds recorded in trading portfolio and in portfolio of investment securities available for sale at fair value of RR 858 million were transferred from Level 1 to Level 2 during the year ended 31 December 2010. There were no transfers between level 1 and level 2 during the year ended 31 December 2009.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2010:

	At 1 January 2010	Total gains reported in income statement	Total gains reported in other comprehensive income	Purchases	Transfers from Level 3	Transfers to Level 3	At 31 December 2010
Financial assets							
Securities designated at fair value through profit or loss	15 990	678	-	159	(13 383)	-	3 444
Investment securities available for sale	9 909	212	4 472	252	(2 948)	-	11 897
Derivative financial instruments	-	601	-	2 131	-	2 240	4 972
Total level 3 financial assets	**25 899**	**1 491**	**4 472**	**2 542**	**(16 331)**	**2 240**	**20 313**

Certain financial instruments were transferred from Level 3 to Level 2 during the year ended 31 December 2010 as additional observable market data became available.

For the year ended 31 December 2010 all the gains reported in income statement and reported in other comprehensive income on Level 3 financial assets were unrealized.

Total gains recognized as profit or loss on securities designated at fair value through profit or loss which are presented in the table above are reported in income statement within net gains arising from securities designated at fair value through profit or loss.

Total gains recognized as profit or loss on investment securities available for sale which are presented in the table above are reported in income statement within net gains arising from investment securities available for sale.

Total gains/(losses) recognized as profit or loss on derivative financial instruments investment which are presented in the table above are reported in income statement within net gains arising from operations with other derivatives.

34 Fair Value of Financial Instruments (Continued)

Investments in shares of a company involved in construction business at fair value through profit and loss of RR 3 340 million using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC"); volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase in prices.

Should the WACC used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 229 million lower / RR 247 million higher.

Investments in shares of a company involved in machine building at fair value through profit and loss of RR 104 million using a valuation technique based on non-observable inputs

The Group determined fair value of investments based on estimation of fair value of net assets of the company as at the reporting date. The Group applied share of ownership to fair value of assets ratio to determine fair value of shares.

Valuation of available for sale shares in a construction company of RR 731 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the estimation of fair value of assets and liabilities of the company.

Should the fair value of net assets used by the Group in the valuation model increase / decrease by 5%, the carrying value of the financial instrument would be RR 37 million lower / RR 37 million higher.

Valuation of available for sale shares in a stock exchange of RR 4 683 million using valuation techniques based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type of the weighted average cost of capital (hereinafter – "WACC") and estimated future operating cash flows.

Should the WACC used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 336 million lower / RR 395 million higher.

Valuation of available for sale shares of a transportation company of RR 6 442 million using valuation techniques based on non-observable inputs

The principal assumptions underlying the estimation of the fair value include the WACC, commission for transshipment/storage of the goods, annual volume of service and capacity utilization.

The principal assumptions and the impact of reasonable possible changes in these assumptions on the fair value (with all other variables being determined as fixed values) are as follows:

- The volume of the commission for transshipment / storage of the goods will change in the range from -1.5% to +2%;
- The annual production volume will increase by 10%; and
- Capacity utilization ratio will be in the range from 60% to 70%.

34 Fair Value of Financial Instruments (Continued)

As at 31 December 2010 the estimated value of the WACC denominated in US Dollars used by the Group comprised 11.13%.

Should the WACC used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 586 million lower / RR 703 million higher.

Valuation of available for sale shares of a venture company of RR 41 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the discount rate used, production volumes and cost of production, terms and sale price of goods, and costs of development.

As at 31 December 2010 the estimated value of the discount rate used by the Group and represented by required rate of return for venture investments comprised 41.96%. Should the discount rate used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 3 million lower / RR 3 million higher.

Valuation of a put option on unquoted retail trading company shares of RR 1 189 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The inputs of the model include current market price of underlying shares and its historical volatility, option strike price and market risk-free rate of return, the principal input being the price of the shares.

Fair value of the underlying shares as at 31 December 2010 was estimated using the discounted cash flow model and comprised RR 10 663 million. Should the estimated value of shares used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 23 million lower / RR 23 million higher.

Valuation of a put option on shares of RR 2 187 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include current market price of underlying shares, share price volatility and market risk-free rate of return.

Should the share price volatility used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 19 million lower / RR 19 million higher.

Valuation of a put/call option on shares of RR 1 596 million using non-observable inputs

The fair value of the option was determined using the Black-Scholes option pricing model. The principal inputs of the model include share price volatility of publicly traded companies operating in the same industry, share price valuation made using the discounted cash flow model and market risk-free rate of return.

Should the estimated value of shares used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 16 million lower / RR 16 million higher.

34 Fair Value of Financial Instruments (Continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2009:

	At 1 January 2009	Total gains/(losses) recorded in income statement	Total gains recorded in other comprehensive income	Purchases	At 31 December 2009
Financial assets					
Securities designated at fair value through profit or loss	-	63	-	15 927	15 990
Investment securities available for sale	4 545	(864)	49	6 179	9 909
Total level 3 financial assets	**4 545**	**(801)**	**49**	**22 106**	**25 899**

For the year ended 31 December 2009 all the gains reported in income statement and reported in other comprehensive income on Level 3 financial assets were unrealized.

Investment in shares of a company involved in construction business at fair value through profit and loss of RR 2 608 million using a valuation technique based on non-observable inputs

The Group determined the fair value of the investments based on discounted cash flow model with the following principal assumptions underlying the estimation of the fair value: type and volume of construction of housing premises and hotels, terms of construction and subsequent sale, sale price per square meter of housing premises and respective cost of sale, booking rates for hotel rooms.

When determining the sale prices per square meter of housing premises and booking rates for hotel rooms the Group used comparable analogues and estimation of the annual increase of prices.

Should the weighted average cost of the capital (hereinafter – "WACC") used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 237 million lower / RR 258 million higher.

Investment in shares of a company involved in oil and gas production at fair value through profit and loss of RR 13 383 million using valuation technique based on non-observable inputs

The Management of the Group applied the comparative approach using valuation multiples for comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry, oil and gas production, provide the best basis for estimating the asset's fair value.

34 Fair Value of Financial Instruments (Continued)

The Management of the Group applied an enterprise value to reserves ratio as the valuation multiple for calculating the company's fair value, and the resulting asset value was then discounted by 20% due to the asset's illiquidity.

Should the weighted multiples and the discount rate used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 21 million lower / RR 16 million higher.

Valuation of available for sale shares in a construction company of RR 731 million using valuation techniques based on non-observable inputs

The Group determined fair value of investments based on discounted cash-flow model. The principal input of the model used is the estimation of fair value of assets and liabilities of the company.

Should the fair value of net assets used by the Group in the valuation model increase / decrease by 5%, the carrying value of the financial instrument would be RR 37 million lower / RR 37 million higher.

Valuation of available for sale shares in an oil and gas producing company of RR 166 million using valuation techniques based on non-observable inputs

The Management of the Group applied the comparative approach using valuation multiples for comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry, oil and gas production in the Commonwealth of Independent States, provide the best basis for estimating the asset's fair value.

The Management of the Group applied an enterprise value to reserves ratio as the valuation multiple for calculating the company's fair value, and the resulting asset value was then discounted by 20% due to the asset's illiquidity.

Should the weighted multiples and the discount rate used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 3 million higher / RR 4 million lower.

Valuation of available for sale shares of a transportation company of RR 6 230 million using valuation techniques based on non-observable inputs

The principal assumptions underlying the estimation of the fair value include: commission for transshipment / storage of the goods, production volume and capacity utilization.

The principal assumptions are as follows:

- The volume of the commission for transshipment / storage of the goods will change in the range from -1,5% to +2%;
- The annual production volume will increase by 10%; and
- Capacity utilization ratio will be in the range from 80% to 100%.

Should the WACC used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 609 million lower / RR 736 million higher.

34 Fair Value of Financial Instruments (Continued)

Valuation of available for sale shares in a telecommunication company of RR 2 753 million using valuation techniques based on non-observable inputs

The Management of the Group applied the comparative approach with the use of multiples of comparable publicly traded companies.

The principal assumption for determining fair value of the company was that multiples of publicly traded companies operating in the same industry provide the best basis for estimating the asset's fair value.

The Management of the Group applied two types of multiples for calculating fair value:

- EV/EBITDA as an income generation multiple; and
- EV/Number of the customers for economic sector multiple.

The Management of the Group applied 30% EV/EBITDA and 70% EV/Number of customers weighting coefficients for estimating fair value and then discounted the result by 20% in view of the asset's illiquidity.

Should the weighted multiples and discount coefficients used by the Group in the valuation model increase / decrease by 1%, the carrying value of the financial instrument would be RR 3 million lower / RR 4 million higher.

34 Fair Value of Financial Instruments (Continued)

Fair values of financial assets are as follows:

	2010		2009	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents:				
- Cash on hand	297 956	297 956	240 641	240 641
- Cash balances with the Bank of Russia (other than mandatory reserve deposits)	77 447	77 447	70 007	70 007
- Correspondent accounts and overnight placements with other banks with original maturities up to 30 days	309 704	309 704	388 295	388 295
- Reverse-repo agreements with original maturities up to 30 days	34 494	34 494	26 578	26 578
Mandatory cash balances with the Bank of Russia	50 532	50 532	40 572	40 572
Due from other banks	13 035	13 035	10 219	10 219
Loans and advances to customers:				
- Commercial loans to legal entities	2 395 763	2 409 594	1 984 834	2 028 298
- Specialized loans to legal entities	1 842 704	1 875 248	1 772 925	1 702 977
- Consumer and other loans to individuals	599 604	621 434	526 126	526 126
- Mortgage loans to individuals	574 499	599 206	484 012	484 012
- Car loans to individuals	76 817	76 993	96 134	96 134
Investment securities held to maturity	358 191	357 060	-	-
Other financial assets carried at amortised cost:				
- Receivables on plastic cards settlements	91 219	91 219	52 324	52 324
- Settlements on currency conversion operations	6 196	6 196	4 645	4 645
- Trade receivables	5 259	5 259	1 603	1 603
- Accrued fees and commissions	1 164	1 164	1 153	1 153
- Funds in settlement	41	41	1 117	1 117
- Other financial assets carried at amortised cost	3 446	3 446	714	714
Financial assets carried at fair value				
Trading securities	66 168	66 168	91 022	91 022
Securities designated at fair value through profit or loss	106 875	106 875	124 439	124 439
Securities pledged under repurchase agreements	81 493	81 493	2 699	2 699
Investment securities available for sale	1 210 921	1 210 921	845 975	845 975
Other financial assets carried at fair value	9 257	9 257	3 965	3 965
Total financial assets	**8 212 785**	**8 304 742**	**6 769 999**	**6 743 515**

34 Fair Value of Financial Instruments (Continued)

Fair values of financial liabilities are as follows:

	2010		2009	
In millions of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities carried at amortised cost				
Due to other banks:				
- Correspondent accounts and overnight placements of other banks	38 716	38 716	35 621	35 621
- Term placements of other banks	87 912	87 912	18 215	18 215
- Sale and repurchase agreements with other banks	61 803	61 803	111	111
Due to individuals:				
- Current/demand accounts	785 750	785 750	540 455	540 455
- Term deposits	4 048 709	4 075 185	3 246 857	3 228 747
Due to corporate customers:				
- Current/settlement accounts of state and public organisations	116 827	116 827	104 004	104 004
- Term deposits of state and public organisations	40 475	40 691	32 900	33 152
- Current/settlement accounts of other corporate customers	1 082 754	1 082 754	861 028	861 028
- Term deposits of other corporate customers	576 616	610 231	653 627	657 858
Debt securities in issue:				
- Promissory notes	96 505	94 615	101 294	95 996
- Savings certificates	13 102	13 102	17 844	17 844
- Deposit certificates	1 889	1 889	5 461	5 461
- Other debentures	7 930	8 081	-	-
Other borrowed funds:				
- Loan participation notes issued under the MTN programme	153 273	153 968	46 149	48 484
- Syndicated loans received	96 904	96 947	58 703	58 703
- Other long-term borrowings	20 588	20 588	10 361	10 361
Other financial liabilities carried at amortised cost:				
- Plastic card payables	25 425	25 425	13 170	13 170
- Trade payables	9 318	9 318	2 970	2 970
- Funds in settlement	5 071	5 071	1 579	1 579
- Deposit insurance system fees payable	4 476	4 476	3 449	3 449
- Deferred commissions received on guarantees issued	1 222	1 222	799	799
- Other financial liabilities carried at amortised cost	2 109	2 109	562	562
Subordinated debt:				
- Subordinated debt received by the Group from the Bank of Russia	303 299	303 299	504 346	504 346
- Subordinated debt received by the Group on international financial markets	-	-	14 504	14 562
- Subordinated debt received by subsidiaries	214	213	211	200
Financial liabilities carried at fair value				
Other financial liabilities carried at fair value	1 553	1 553	10 589	10 589
Total financial liabilities	**7 582 440**	**7 641 745**	**6 284 809**	**6 268 266**

34 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, other assets at fair value through profit or loss, financial derivatives, available for sale financial assets are carried in the consolidated statement of financial position at fair value.

Cash and cash equivalents are carried at amortised cost which approximately equals their current fair value.

Refer to Note 3 for accounting policy on financial instruments carried at fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from other banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity. If under the Group assessment interest rates for the loans issued before reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Contractual interest rates on loans and advances to customers and due from other banks as at 31 December 2010 and 31 December 2009 were as follows:

	2010	2009
Due from other banks	2.5% to 10.0% p.a.	8.0% to 9.2% p.a.
Loans and advances to customers:		
Corporate loans	5.4% to 18.0% p.a.	6.2% to 15.8% p.a.
Loans to individuals	9.0% to 20.5% p.a.	11.2% to 15.0% p.a.

Estimated fair value of other financial assets including trade debtors equals their carrying amount considering short-term nature of these assets.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 0.03% p.a. to 18.0% p.a. (2009: from 0.04% p.a. to 10.2% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 33.

35 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal shareholder is the Bank of Russia (refer to Note 1). Other related parties in the tables below comprise key management personal and their close family members and associated companies of the Group.

35 Related Party Transactions (Continued)

Disclosures are also made in Note 36 for transactions with state-controlled entities and government bodies.

As at 31 December 2010 and 31 December 2009, the outstanding balances with the Bank of Russia and other related parties were as follows:

		2010		2009	
In millions of Russian Roubles	Note	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Assets					
Cash and cash equivalents (contractual interest rate: 3.0%)		212 451	-	345 035	-
Mandatory cash balances with the Bank of Russia		50 532	-	40 572	-
Bonds of the Bank of Russia (yield to maturity: 4.0%)	12	433 585	-	221 080	-
Gross amount of loans and advances to customers (contractual interest rates: 9.5%-20.0%)		-	528	-	-
Impairment provision for loans and advances to customers		-	(7)	-	-
Other assets		-	-	45	-
Liabilities					
Due to corporate customers (contractual interest rate: 0.01%-3.44%)		-	1 163	-	-
Subordinated debt (effective interest rate: 6.5%)	21	303 299	-	504 346	-

As at 31 December 2010 the Group has pledged federal loan bonds (OFZ bonds) and Eurobonds of the Russian Federation on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Group attracts on a regular basis from the Bank of Russia. Refer to Notes 8, 9, 12, 13 and 32. The carrying value of assets pledged is as follows:

In millions of Russian Roubles	Notes	2010	2009
Trading securities	8		
- Federal loan bonds (OFZ bonds)		14 715	18 105
- Russian Federation Eurobonds		-	6 348
Securities designated at fair value through profit or loss	9		
- Federal loan bonds (OFZ bonds)		31 520	39 658
Investment securities available for sale	12		
- Federal loan bonds (OFZ bonds)		42 498	65 299
- Russian Federation Eurobonds		5	13 768
Investment securities held to maturity	13		
- Federal loan bonds (OFZ bonds)		37 044	-
Total		**125 782**	**136 830**

35 Related Party Transactions (Continued)

The income and expense items with the Bank of Russia and other related parties for the year ended 31 December 2010 and 31 December 2009 were as follows:

	2010		2009	
In millions of Russian Roubles	the Bank of Russia	Other related parties	the Bank of Russia	Other related parties
Interest income	32 158	59	2 640	-
Interest expense on subordinated debt	(27 851)	-	(39 989)	-
Interest expense other than on subordinated debt	(343)	(8)	(8 292)	-
Net provision charge for loan impairment	-	(7)	-	-
Net gains arising from trading securities	8	-	-	-
Net gains arising from investment securities available for sale	570	-	-	-
Other operating income	-	6	-	-
Operating expenses	(1 005)	(12)	(848)	-

For the year ended 31 December 2010, remuneration of the members of the key management personnel comprised salaries, bonuses and other staff related expenses totalling RR 1 043 million (the year ended 31 December 2009: RR 506 million).

36 Operations with State-Controlled Entities and Government Bodies

The Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Group disclosed only information that its current internal management and accounting systems allow to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These consolidated financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Group’s transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) 100% State subsidiaries and government bodies and 2) largest entities where the State controls over 50% of its share capital. All transactions with government bodies and state-controlled entities are entered into in the normal course of business and priced at market rates.

36 Operations with State-Controlled Entities and Government Bodies (Continued)

As at 31 December 2010 and 31 December 2009, the outstanding balances with state-controlled entities and government bodies were as follows:

	2010		2009	
In millions of Russian Roubles	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital
Cash and cash equivalents (contractual interest rate: 0.5%)	2 001	8	-	1 747
Trading securities (yield to maturity: 2.0% - 18.0%)	48 213	4 634	72 642	6 876
Securities designated at fair value through profit or loss (yield to maturity: 1.0% - 8.0%)	78 323	4 871	98 131	5 383
Due from other banks (contractual interest rates: 2.5% - 10.0%)	-	10 198	4 073	2 516
Gross amount of loans and advances to customers (contractual interest rates: 5.5% - 16.8%)	326 359	114 872	247 522	197 813
Impairment for loans and advances to customers	(12 036)	(7 281)	(4 675)	(4 402)
Securities pledged under repurchase agreements (yield to maturity: 1.3% - 1.7%)	59 224	3 747	-	31
Investment securities available for sale (yield to maturity: 1.5% - 14.0%)	457 975	92 499	416 665	65 883
Investment securities held to maturity (yield to maturity: 4.0% - 8.6%)	313 380	18 070	-	-
Due to other banks (contractual interest rates: 0.4% - 3.3%)	472	5 988	-	205
Due to corporate customers (contractual interest rates: 0.3% - 10.8%)	187 240	94 990	152 369	90 693
Other liabilities	-	-	3 449	-
Guarantees issued	76 458	4 138	9 633	2 662

Income and expense items with State subsidiaries and government bodies for the year ended 31 December 2010 and 31 December 2009 were as follows:

	2010		2009	
In millions of Russian Roubles	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital
Interest income on loans	27 995	13 491	40 510	28 215
Interest income on securities	52 688	5 637	37 191	1 858
Interest expense	(4 116)	(1 902)	(12 829)	(7 516)
Net provision charge for loan impairment	(7 361)	(2 879)	(443)	(2 182)
Net gains/(losses) arising from trading securities	4 399	(165)	10 254	781
Net gains/(losses) arising from securities designated at fair value through profit or loss	5 514	(356)	5 316	1 782
Net gains arising from investment securities available for sale	3 288	3 649	9 138	5 407
Net gains arising from investment securities held to maturity	5	-	-	-
Fee and commission income	5 938	2 057	4 242	837
State deposit insurance system membership fee	16 255	-	13 047	-

36 Operations with State-Controlled Entities and Government Bodies (Continued)

Transactions with the State also include taxes. Income tax expense attributable to operations taxable in the Russian Federation amounted to RR 46 763 million for the year ended 31 December 2010 (for the year ended 31 December 2009: RR 4 113 million).

37 Principal Subsidiaries

The table below provides details on principal subsidiaries of the Bank as at 31 December 2010:

Name	Nature of business	Percentage of ownership	Country of registration
Subsidiaries:			
OJSC Belpromstroy Bank (OAO BPS Bank)	banking	97.91%	Belarus
SB JSC Sberbank	banking	100.00%	Kazakhstan
JSC Sberbank of Russia	banking	100.00%	Ukraine
CJSC Sberbank Leasing	leasing	100.00%	Russia
LLC Sberbank Capital	finance	100.00%	Russia
Sberbank Asset Management Company	asset management services	100.00%	Russia
OJSC Holding company GVSU Center	construction	97.03%	Russia
CJSC NK Dulisma	oil company	100.00%	Russia
LLC Khrustalnye Bashni	construction	50.01%	Russia
OJSC Pavlovskaya Keramika	construction materials	93.44%	Russia
LLC Pavlovo-Posadskoe Gornodobyvauchee Obiedinenie	construction materials	93.44%	Russia
CJSC GOTEK Group Management Company	packaging materials	60.00%	Russia
Vester Retail N.V.	retail trading	51.00%	Netherlands

In December 2009 the Bank acquired a 93.3% share of the share capital of OJSC BPS Bank, which was previously controlled by Government of Republic of Belarus. During the year ended 31 December 2010 the Group acquired an additional 4.61% share in the OJSC BPS Bank. Amount of non-controlling interest acquired during 2010 comprised RR 367 million.

In January 2010 under the settlement of the loan the Group repossessed a 50.01% share in a single-asset company – LLC Khrustalnye Bashni. The asset of the company is represented by undergoing construction of business centre in Moscow.

In April 2010 under the settlement of the loan to its borrowers the Group repossessed a 93.44% share in OJSC Pavlovskaya Keramika, a 93.44% share in LLC Pavlovo-Posadskoe Gornodobyvauchee Obiedinenie. These companies are involved in production and sale of construction materials. Also during 2010 the Group repossessed a 51.0% share in Vester Retail N.V., a holding company of a retail trading group operating mainly in Russia, as well as controlling interests in some other companies. The Group plans to develop and dispose of the subsidiaries in the foreseeable future.

37 Principal Subsidiaries (Continued)

The details of the fair value of net assets of OJSC Pavlovskaya Keramika, LLC Pavlovo-Posadskoe Gornodobyvauchee Obiedinenie, Vester Retail N.V. and other companies acquired during the year ended 31 December 2010, and goodwill arising on acquisition are as follows:

(In millions of Russian Roubles)	**Fair value**
Fair value of net assets of subsidiaries	**1 587**
Total purchase consideration	**6 914**
Non-controlling interest's proportionate share of net assets acquired	49
Total purchase consideration and non-controlling interest	**6 963**
(Gain from bargain purchase)	**(511)**
Goodwill arising on acquisition	**5 887**

In April 2010 under the settlement of the loan to its borrower the Group repossessed a 60.0% share in CJSC GOTEK Group Management Company which is a holding company of a group involved in production of packaging materials. The Group plans to develop the business of the subsidiary and has further plans to dispose of it in the foreseeable future.

The details of the fair value of net assets of CJSC GOTEK Group Management Company, acquired during the year ended 31 December 2010, and goodwill arising on acquisition are as follows:

In millions of Russian Roubles	**Fair value**
Fair value of net assets of subsidiary	**4 941**
Total purchase consideration	**5 777**
Non-controlling interest at fair value	1 977
Total purchase consideration and non-controlling interest	**7 754**
Goodwill arising on acquisition	**2 812**

The share of the subsidiaries of the Bank in the consolidated assets of the Group as at 31 December 2010 was 4.2% (31 December 2009: 3.3%).

38 Capital Adequacy Ratio

The Group's objectives when managing capital are (i) to comply with the regulatory capital requirements set by the Bank of Russia and (ii) to safeguard the Group's ability to continue as a going concern. The Group also monitors capital adequacy ratio based on Basel Accord to make sure it maintains a level of at least 8%.

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the Bank of Russia statutory capital ratio has to be maintained above the minimum level of 10%. The Bank's Assets and Liabilities Management Committee (ALMC) sets the minimum level of the capital ratio of 11%. This level exceeds both the minimum level set by the Bank of Russia (10%) and Basel Committee (8%) and allows the Bank to participate in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Guarantees on Bank Deposits of Individuals in the Russian Federation" dated 23 December 2003. As at 31 December 2010 the regulatory capital adequacy ratio was 17.7% (2009: 21.5%). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining the calculation. Regulatory capital based on the Bank's reports prepared under Russian accounting standards totalled RR 1 241 876 million as of 31 December 2010 (2009: RR 1 317 771 million).

38 Capital Adequacy Ratio (Continued)

As at 31 December 2010 and 31 December 2009, Capital Adequacy Ratios calculated by the Group in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel 1 requirements, were as follows:

In millions of Russian Roubles	**2010**	**2009**
Tier 1 capital		
Share capital	87 742	87 742
Share premium	232 553	232 553
Retained earnings	585 819	403 934
Less goodwill	(8 251)	(469)
Total Tier 1 capital	**897 863**	**723 760**
Tier 2 capital		
Revaluation reserve for premises	53 648	55 540
Fair value reserve for investment securities available for sale	13 437	(329)
Foreign currency translation reserve	(1 136)	(1 009)
Subordinated capital	303 513	362 115
Less investments in associates	(2 479)	(31)
Total Tier 2 capital	**366 983**	**416 286**
Total capital	**1 264 846**	**1 140 046**
Risk weighted assets (RWA)		
Credit risk	7 327 090	6 005 088
Market risk	199 883	298 725
Total risk weighted assets (RWA)	**7 526 973**	**6 303 813**
Core capital adequacy ratio (Total Tier 1 capital to Total RWA)	**11.9**	**11.5**
Total capital adequacy ratio (Total capital to Total RWA)	**16.8**	**18.1**

39 Subsequent Events

In January 2011 the Group repossessed development projects of Capital Group in the amount of RR 10 788 million under the settlement of a loan and an investment agreement.

In January 2011 the Group started issuance of interest-bearing bonds denominated in UAH at nominal value RR 2 871 million with maturity date in January 2013, 12.75% interest rate with quarterly coupon payment. As at 21 March 2011 the Group actually placed bonds with nominal value RR 1 651 million and cash proceeds from the issuance amounted to RR 1 655 million.

In February 2011 the Group acquired 25% plus one share of Nitol Solar Ltd., a company specialising in use of solar energy.

In February 2011 the Group acquired 5.6% of ordinary shares in OJSC RTS stock exchange.

In March 2011 the Group signed a memorandum of understanding on acquisition of 100% shares of Troyka Dialog, a leading Russian company specializing in investment banking and asset management. Under the agreed terms, the Group will acquire the shares for a cash consideration of USD 1 000 million by the end of 2011. Additional amount could be payable in 2013 and depends on net earnings of Troyka Dialog in the years 2011 – 2013. The deal is subject to regulatory approval in Russia and other jurisdictions.